KIER

Focusing on sustainable delivery

Kier Group plc Annual Report and Accounts 2015

Kier is a leading property, residential, construction and services group. We operate across a range of sectors including defence, education, health, housing, industrials, power, property, transport and utilities.

The Group employs over 24,000 people in its operations in the UK, the Caribbean, the Middle East, Hong Kong and Australia.

Our vision

Our vision is to be a world-class, customer-focused company that invests in, builds, maintains and renews the places where we live, work and play.

Our values

Enthusiastic

We make things happen: we are resourceful problem-solvers, who enjoy what we do and get the job done

Collaborative

We work together: we consult to reach the right solution and as a team achieve more

Forward-thinking

We look ahead: we positively challenge the way we do things to excel, we care about our customers and the service we provide

Find out how we will achieve our strategic goals
– page 16 onwards

Front cover: The Mersey Gateway project, one of Kier's infrastructure projects, uses innovative construction techniques including the creation of a temporary bridge and moving scaffold system to improve access to the bridge over the water.

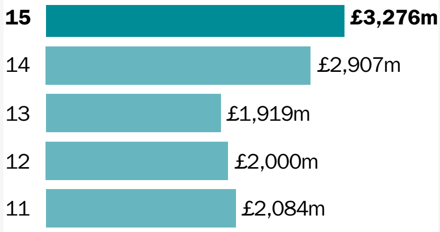
Contents

Financial highlights

- Group revenue[2] of £3.3bn up 13%
- Underlying operating profit[1,2] of £103.7m (2014: £87.3m)
- Underlying earnings per share[1,2,3] of 96.0p (2014: 87.5p) up 10%
- Net debt position of £141m ahead of expectations (June 2014: £123m)
- Full-year dividend increased by 20% to £47.3m (2014: £39.4m)

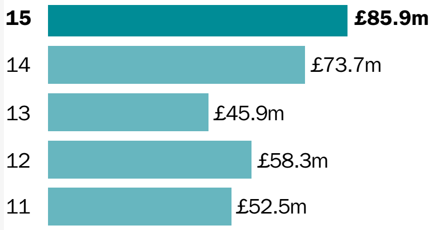
£3,276m

Group revenue[2] (£m)



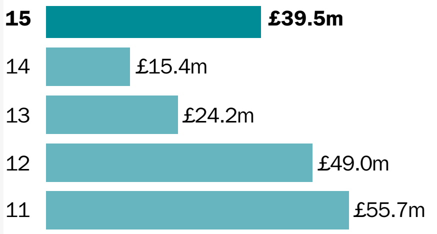
£85.9m

Underlying profit before tax[1,2] (£m)



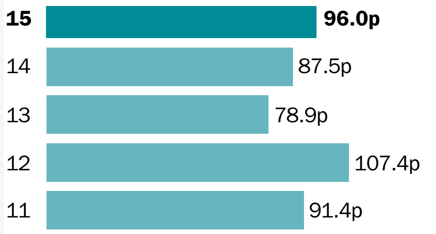
£39.5m

Reported profit before tax[2] (£m)



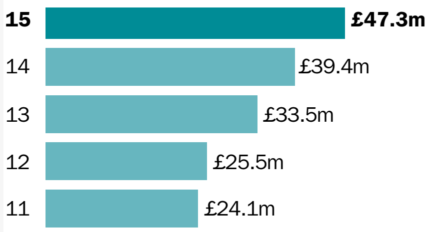
96.0p

Underlying earnings per share[1,2,3] (p)



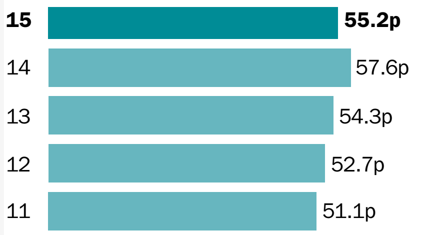
£47.3m

Total dividend (£m)



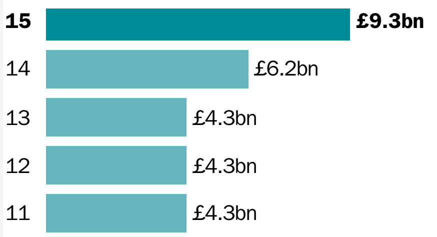
55.2p

Dividend per share[3] (p)



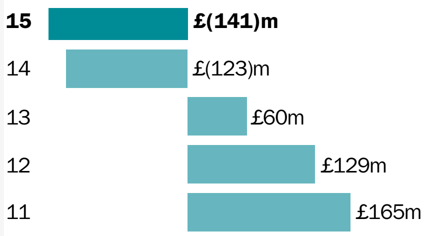
£9.3bn

Order book (£bn)



£(141)m

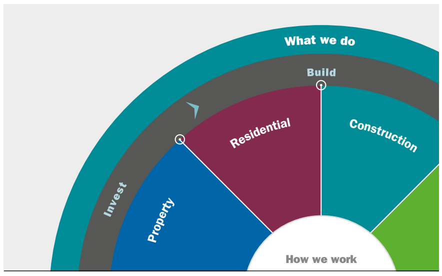
Net (debt)/cash balances (£m)



Essential read

Chief Executive's strategic review page 6

Haydn Mursell answers the key questions about Kier's business



Our business model page 14

Kier's breadth of capabilities provides a unique offer for clients

1 Stated before non-underlying items; see note 4 to the consolidated financial statements.
2 Continuing operations. Prior year comparatives restated to reflect the reclassification of the UK mining activities as discontinued operations.
3 Restated for the bonus element of the rights issue associated with the Mouchel transaction; see notes 11 and 24 to the consolidated financial statements.

Kier at a glance

Kier offers a breadth of capabilities enabling us to bring together the right skills from across the business to provide an integrated offer to our clients.

Property

pages 38 to 40

The Property division encompasses property development and structured finance. The division operates across a number of sectors but particularly the industrial, commercial, retail and leisure sectors as well as the public sector.

£22.7m
Underlying operating profit[1,4]
(2014: £16.0m)

£(82.9)m
Average capital[3]
(2014: £(61)m)

81
No. of employees
(2014: 63)

Revenue

- Property development
- Structured finance

Our capabilities
- Asset management
- Bespoke occupier solutions
- Joint ventures
- Owner occupiers
- Partnerships
- Project development
- Property development
- Project investment
- Regeneration
- Structured finance

Residential

pages 41 to 43

Kier Living, our residential business, includes private house building and affordable mixed tenure housing partnerships. Its clients include local authorities, housing associations and the private rented sector.

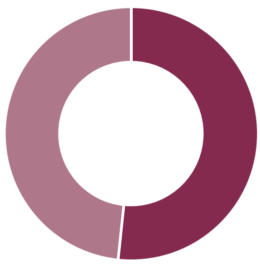
£11.2m
Underlying operating profit[1,4]
(2014: £7.7m)

£(262.7)m
Average capital[3]
(2014: £(233)m)

613
No. of employees
(2014: 348)

Revenue

- Private house building
- Mixed tenure housing



Our capabilities
- Affordable housing
- Living space
- Mixed-use communities
- Private residential housing
- Regeneration

1 Stated before non-underlying items; see notes 2 and 4 to the consolidated financial statements.
2 Continuing operations. Prior year comparatives restated to reflect the reclassification of the UK mining activities as discontinued operations.
3 Equates to average net debt.
4 Restated to reflect the creation of the Residential division, comprising elements previously included within the Property and Construction divisions.

Where we operate
The Group operates internationally in the following geographies:

- UK & Ireland
- Middle East
- Australia
- Hong Kong
- Caribbean

Construction

pages 44 to 48

The Construction division comprises the UK building and civil engineering businesses and the international business. The division has an established position on strategic frameworks supported by its regional building presence and strong local supply chain partners. Kier is a sector leader in the education, healthcare and transport markets.

£37.7m
Underlying operating profit[1,2,4]
(2014: £30.2m)

£3.3bn
Order book
(2014: £2.5bn)

2.2%
Underlying operating margin[1,2,4]
(2014: 2.0%)

5,856
No. of employees
(2014: 3,720)

Revenue

- Building
- Major projects
- Infrastructure
- International

Our capabilities
- Building
- Civil engineering
- Construction management
- Engineering design
- Interiors and refurbishment
- Mechanical and electrical
- Rail services
- Technical services

Services

pages 49 to 53

The Services division comprises capabilities in highways maintenance (both local authority and strategic highways), utilities, housing maintenance, facilities management and environmental services. The recently acquired activities of Mouchel's consulting and local authority business processing operations, recently renamed Kier Business Services, are also included.

£58.0m
Underlying operating profit[1]
(2014: £53.3m)

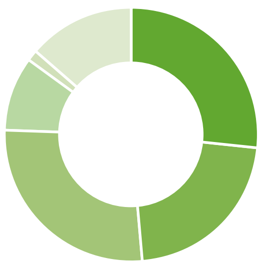
£6.0bn
Order book
(2014: £3.7bn)

4.7%
Underlying operating margin[1]
(2014: 4.8%)

17,021
No. of employees
(2014: 10,813)

Revenue

- Highways
- Utilities
- Housing maintenance
- Facilities management
- Consulting
- Other



Our capabilities
- Design consultancy
- Energy management services
- Environmental services
- Facilities management
- Highway maintenance and management
- Housing maintenance
- ICT and back-office services
- Utilities services
- Waterway services

Chairman's statement

"I am pleased to report 2015 was another year of solid growth, building on the trend of previous years."

£47.3m

Full-year dividend
(2014: £39.4m)

96.0p

Underlying earnings per share[1,2,4]
(2014: 87.5p)

Group revenue[1] for the year ended 30 June 2015 increased by 13% to £3.3bn (2014: £2.9bn) and underlying operating profit[1,2] increased by 19% to £103.7m (2014: £87.3m). Overall, underlying operating margins[1,2] were robust at 2.2% in the Construction division (2014[3]: 2.0%) and 4.7% in the Services division (2014: 4.8%), in line with expectations. The Property division made a significant contribution with underlying operating profit[2] of £22.7m (2014[3]: £16.0m) and the Residential division also performed well, with underlying operating profit[2] of £11.2m (2014[3]: £7.7m).

Underlying profit before tax[1,2] for the year of £85.9m (2014: £73.7m) and underlying earnings per share[1,2] of 96.0p (2014[4]: 87.5p as adjusted for the effect of the rights issue associated with the Mouchel transaction) were both in line with expectations.

We remain focused on our five-year strategy, Vision 2020, and its strategic goals which are aimed to increase the Group's profitability and scale of operations both organically and through acquisition, whilst continuing to improve the quality of our earnings.

In June 2015, the Group completed the acquisition of Mouchel, the international infrastructure services and business services group, in line with the Group's Vision 2020 goal to be top three in its chosen markets and thereby accelerating the delivery of the Vision 2020 growth strategy. The acquisition brought together Mouchel's leading position in the strategic highways services market and Kier's presence in the local authority roads market. As such, it positions Kier as the sector leader in the growing UK highways maintenance and management market.

Having increased the Group's size over the last two years, we are focused on continuing to improve the quality of our earnings and are simplifying and restructuring our business, investing in our future growth. Consequently, in early July 2015 we disposed of our fleet & passenger services business and our UK coal mining business has been prepared for sale.

Dividend

As a result of the acquisition of Mouchel, the proposed final dividend in respect of the year ending 30 June 2015 has been adjusted to take into account the increased number of shares in issue following the completion of the rights issue. To reflect the Board's continued confidence in the Group, a total dividend for the year of £47.3m, a 20% increase (55.2 pence per share)[4], is proposed. Subject to shareholder approval, the final dividend of 36.0 pence per share will be paid on 27 November 2015 to shareholders on the register at the close of business on 25 September 2015. A scrip dividend alternative will also be available.

The Board

As the Group continues to grow, it is important that we look at the composition of the Board. During this year, a number of senior management changes took place including Haydn Mursell formally taking up the role of Chief Executive in July 2014.

In January 2015, Bev Dew joined the Board as Finance Director. In March 2015, Nigel Brook (Executive Director – Construction and Infrastructure Services), Nigel Turner (Executive Director – Developments and Property Services) and Claudio Veritiero (Group Strategy and Corporate Development Director) joined the Board, reflecting the increased size and breadth of the Group. It was particularly pleasing that three of these four appointments were internal. As a consequence of this reorganisation, Steve Bowcott, Chief Operating Officer, left the Board and the business at the end of April 2015. These appointments are a strong addition to the Board ensuring the Group has the range of skills, experience and expertise at Board level to deliver its five-year strategy, Vision 2020.

On 31 July 2015, it was announced that Justin Atkinson will join the Board as a non-executive director with effect from 1 October 2015. With over 20 years' experience at Keller Group, of which 15 years were as Chief Finance Officer and then Chief Executive, Justin has a deep knowledge of the construction sector and operating internationally. I would like to welcome Justin to the Board.

1 Continuing operations. Prior year comparatives restated to reflect the reclassification of the UK mining activities as discontinued operations.
2 Stated before non-underlying items; see notes 2 and 4 to the consolidated financial statements.
3 Restated to reflect the creation of the Residential division, comprising elements previously included within the Property and Construction divisions.
4 Restated for the bonus element of the rights issue associated with the Mouchel transaction; see notes 11 and 24 to the consolidated financial statements.

Our people
As the Group increases in size, it is important to develop consistent and efficient working practices across our teams. We believe our values – enthusiastic, collaborative and forward-thinking – enable us to work effectively in partnership with our clients. I would like to thank all of our people for their commitment, professionalism and hard work during this year.

Outlook
I am pleased to announce we have delivered solid growth and increased profitability. Economic confidence is returning to our core markets and, furthermore, the acquisition of Mouchel represents a major step in accelerating the Group's five-year strategy.

All our divisions have performed well. In Property, the market remains strong and we have ample support from funders and other investors. Following its expansion, our Residential division is well-placed to help address the national shortage of affordable housing. In Construction, the regional building business has an established position on public and private sector frameworks and our infrastructure business is benefiting from continued greater investment by the UK Government in infrastructure in the medium term, and internationally, the Middle East pipeline is strengthening. Our Services division will benefit from the £700m AMP6 contracts secured during the year and the Mouchel acquisition has made Kier the sector leader in the UK highways management and maintenance sector. We are committed to offering a full, integrated approach to our clients by maximising the breadth and combination of capabilities available in the Group, assisting them to address the budget challenges they face.

We continue to simplify the portfolio and restructure our businesses and invest in our future growth. We continue to improve the quality of our earnings to reflect the changing demands of our markets. With a £9.3bn order book, a strong balance sheet and continued progress on our Vision 2020 goals this year, we look forward to the future with confidence.

Phil White
Chairman

Read our Governance Report for more
– pages 60 to 111


Phil White
Chairman

Governance highlights

The Governance Report on pages 60 to 111 provides details of our approach to governance and how it supported the delivery of our Vision 2020 strategy during 2015. Key highlights of the year included:

Nomination Committee
— Monitored the induction of a new non-executive director, Kirsty Bashforth;
— Recommended the appointment of the four new executive directors appointed during the year; and
— Led the search relating to the appointment of Justin Atkinson as a non-executive director.

Read more in the Nomination Committee Report on pages 74 and 75.

Risk Management and Audit Committee
— Oversaw PwC's first year as the Group's external auditor following shareholder approval at the 2014 annual general meeting ('AGM');
— Assisted the Board to ensure that the information presented in this annual report is 'fair, balanced and understandable'; and
— Monitored the Group's risk management and internal control processes.

Read more in the Risk Management and Audit Committee Report on pages 76 to 81.

Safety, Health and Environment ('SHE') Committee
— Oversaw the behavioural safety self-assessment across the Group, setting a benchmark against which to measure and continuously improve the Group's SHE performance; and
— Worked with management to ensure that the Group's SHE strategy supported the delivery of Vision 2020.

Read more in the Safety, Health and Environment Committee Report on pages 82 and 83.

Remuneration Committee
— Implemented the Company's remuneration policy which was approved at the 2014 AGM with respect to all changes to the Board during the year; and
— Reviewed the level of base salaries payable to the executive directors in the 2016 financial year, together with the bonuses payable with respect to the 2015 financial year.

Read more in the Remuneration Report on pages 84 to 106.

Chief Executive's strategic review

Chief Executive Haydn Mursell answers the key questions about Kier's business and performance and outlines his vision for the future.

Vision 2020

Safety
Zero
Harm

Profit growth
>10%
CAGR

Shareholder return
Progressive dividend

Customers
+90%
Customer satisfaction

Property
>15%
ROCE

Residential
>15%
ROCE

Construction
>2.5%
EBITA

Services
>5%
EBITA

How we will achieve our vision
– pages 16 and 17

Q: What are the main issues you have focused on during your first year as Chief Executive?
At the start of the year, I set out four priorities – safety, performance, people and communications.

You simply cannot compromise on safety and I am pleased to report a 14% year-on-year reduction in Accident Incidence Rate ('AIR') across our UK businesses. We encourage everyone to think about safety, to recognise that it is 'in their hands' and that we are all responsible for continuous improvement. We have set a target AIR of zero for the Group by 2020, so there is still improvement to be made. We are also interested in our people's health and wellbeing. Our wellbeing programme, launched this year, helps them to think effectively about diet and exercise and generally how to look after themselves.

Performance is about maintaining discipline and focus. We are focused on sustainable delivery and when we deploy cash or resources into the operations, we need to generate an appropriate return for the risk we assume. With the increase in the Group's size over the last two years, we are continuing to focus on improving the quality of our earnings and simplifying our portfolio of businesses to match the changes in the market and our clients' demands. As the economy improves, it is critical that we stay disciplined in our approach to capital allocation, our return on capital criteria and risk management. Accordingly, we have sold our fleet & passenger services business and propose to sell our UK mining operations, where discussions with a potential buyer are progressing well.

In order to deliver Vision 2020, we need to attract and retain quality talent. There is currently high demand for good people in our markets, so this requires special attention. While the strength and reputation of our brand helps us to attract people, we need to continue to be attractive to prospective recruits by offering them training, development and career opportunities. This year, we have established a number of sector-specific academies in our highways, utilities and housing maintenance operations, to ensure we have the skills required.

More broadly, we are committed to investing in our future generation of talent by developing early careers programmes across the business, spanning a range of career entry levels from school leavers to post-graduates. We continue to recruit and develop a high number of apprentices, day release and undergraduate placements and this year introduced a Level 3 Kier Technical Apprenticeship programme working in partnership with the Learning Skills Partnership. Upon successful completion, there is the option to progress onto the Kier Degree programme which has been in operation for the past eight years. We are investing heavily in the recruitment and development of graduates, both from construction and non-construction disciplines, with 115 graduates recruited during 2015. We are also proud members of The 5% Club.

Q&A

with Haydn Mursell
Chief Executive

It's important that everyone is kept informed about our performance and plans, so that they know what Kier stands for, our achievements and also understand how they can contribute to the Group's success. Our annual employee roadshows and regular news updates and forums give our people a chance to learn about our progress and for the leaders of the business to listen to feedback.

During this first year, I have met a number of our clients and employees and will continue to do so. It is through this level of engagement that I can understand clients' issues and concerns. I have also visited many of our sites and I continue to be impressed by the dedication and commitment of our teams, including those from our supply chain partners. I would like to thank our employees for all their hard work and support during the year.

Q: What aspects of this year's results pleased you the most?

I am pleased that Kier experienced solid growth this year. Once the uncertainty surrounding the outcome of the UK General Election reduced, the confidence of our investors and clients improved, which is reflected in our revenue and our growing pipeline of opportunities.

We continued to progress towards Vision 2020, increasing the Group's underlying profitability and scale of operations both organically and through acquisitions, and we increased the quality of our earnings.

Our Property division continues to successfully invest the Group's free cash flow in predominantly non-speculative developments and our Residential division is benefiting from the supply and demand imbalance in UK housing. In Construction, the quality of opportunities is improving, with the risk profile of new work lower than it has been for some years. In our Services division, we now have leading positions in important growth sectors such as highways, through the acquisition of Mouchel, and a new £200m maintenance contract with Northamptonshire County Council, an existing client, as well as in the utilities sector through the asset management plan ('AMP') water bidding cycle, where we secured significant new business with clients such as Anglian Water and Thames Water.

Q: Where can you improve?

We offer a range of capabilities designed to deliver a breadth of services for clients, to suit their requirements. This year we have shown our ability to do this with new partnerships with Northamptonshire County Council and with Staffordshire County Council and the Police and Crime Commissioner for Staffordshire. These partnerships illustrate how clients want to work more broadly with the Group and provide opportunities for us to promote the full range of services to our clients. It is anticipated that the requirement for a broad set of capabilities, particularly by local authorities and affordable housing providers, will increase following the Government's recent Budget.

£3.3bn
+13%

Group revenue[1]
(2014: £2.9bn)

£103.7m
+19%

Underlying operating profit[1,2]
(2014: £87.3m)

£9.3bn

Combined Construction and Services order book
(2014: £6.2bn)

[1] Continuing operations. Prior year comparatives restated to reflect the reclassification of the UK mining activities as discontinued operations.
[2] Stated before non-underlying items; see note 4 to the consolidated financial statements.

Chief Executive's strategic review continued

Mouchel – a compelling strategic rationale

On 8 June 2015 the Group acquired MBRL Limited ('Mouchel') for £265m. The transaction:

- Creates a sector leader in the growing UK highways management and maintenance market;
- Provides an integrated capability in the highways and utilities sectors;
- Further enhances Kier's service offering in the local authority markets; and
- Expands the Group's international presence.

Q: What will drive growth to 2020?
We are pleased with our progress against Vision 2020 and we expect the business to grow in the coming year. Looking over the medium term, infrastructure is a particular growth market. The UK Government has committed to investing in the transport system, with a particular focus on building roads and railways. Meanwhile, the impending reduction in the UK's power generation capacity will also need to be addressed to service current and future power demands. We have capabilities in these sectors through our highways capital works and maintenance activities; in rail, on Crossrail, our new joint venture for HS2 and through our broader relationship with Network Rail. In power, we have an established track record in the sector, having built 10 of the last 14 gas-fired facilities in the UK, and we are currently working at Hinkley Point C nuclear power station.

In the services market, the budget challenges for local authorities continue to drive a need for new ways to manage assets, value and how best to deliver essential local services. This is expected to lead to an overall increase in outsourcing opportunities that require a broad range of capabilities of the type we can provide.

Our Residential division seeks to address the continuing shortage of affordable UK housing stock as overall production remains well below the Government's annual targets. Recent changes to the 'Right-to-Buy' policy and funding for registered providers is likely to lead to greater public and private collaboration on housing schemes which the Group is equipped to address. We believe that the affordable housing market will see the greatest growth and with the public sector already owning land suitable for housing, our aim is to assist them in deriving value through housing development.

The growth we envisage will require us to continue to invest in the Group and particularly in our systems. The planned investment in our human resources and finance change programme, BOOST, will underpin continuing improvement in the efficiency of our operating model which over time will increase the efficiency of our operating model which will consequently increase the quality of our margins.

Q: What balance sheet structure do you need to deliver Vision 2020?
As set out in Vision 2020, we are committed to achieving a net debt/EBITDA ratio of 1.0x by 2017 and we are well on course to meet that commitment. An appropriate level of debt is tax efficient and allows us greater flexibility to invest for the future, to generate attractive returns for a modest cost while interest rates are historically low. Our target balance sheet structure is designed to be both efficient and prudent.

Q: What does the Mouchel acquisition mean for Kier?
Following the acquisition of Mouchel, Kier has become the sector leader in the growing UK highways management and maintenance market, at a time when the new UK Government has significantly increased the highways budget. More than 70% of Mouchel's business is in strategic highways which, when combined with Kier's highways work with local authorities, provides considerable opportunities for synergies.

We are now well-positioned to benefit from the new Road Investment Strategy which sets out a long-term investment of £17bn to maintain, renew and enhance the strategic road network between 2015-2020, with annual expenditure increasing from £2.9bn to £4.1bn over the same period. Our greater presence in the highways sector also accelerates our strategy for growth more broadly across the infrastructure market. When looking across the infrastructure, construction and maintenance activities, the business now has total revenue of more than £1.5bn in the UK, with further significant growth opportunities.

Mouchel also has an outsourcing business, principally aimed at local authorities and public sector clients, such as the emergency services. I am excited by the opportunities that Mouchel's local authority clients could provide to us. I am also pleased that we are progressing with the smooth integration of the Mouchel business and have retained its core management team, ensuring continuity and stability.

Q: What are the risks to your growth?
The detailed risks to our business are set out in more detail later in the report. However, our focus needs to remain on being selective in bidding for new work. To deliver our growth plans, we need to maintain our disciplined tender processes and contract risk management practices. We believe that our pre-contract risk management process is good and this, combined with highly capable delivery teams, is essential to the Group's sustained performance.

We therefore need to have the right people to bid for and deliver contracts and to service our clients, together with the leadership and drive to develop our business. I believe the new Board appointments announced this year give us the experience and expertise to do this.

Q: The construction sector has a history of problems. How have you avoided them?
At Kier, we have made a significant investment in managing pre-construction risk, reflecting the fact that this is the stage where it is important to discover, and resolve, potential difficulties with a project. We also carry out a large number of projects with relatively modest capital values and shorter durations, which helps to reduce the overall risk. A significant number of our projects are 12 to 15 months long, which limits our exposure to inflation or other supply chain risks. In addition, our position on a large number of frameworks enables us to manage risk effectively.

Q: How about the international business?
We anticipate our international business will deliver 10% of the Group's revenues by 2020. However, we recognise that, although higher margins are available to us in overseas markets, risk management remains imperative. We will, therefore, remain selective in our international expansion. In Hong Kong, work is progressing on our two major rail contracts for Mass Transit Railway Corporation ('MTRC'), although these remain challenging, with project delays being experienced across the entire rail programme, and we are working with MTRC to resolve these issues. We have a long-established track record of operating in the Caribbean and the Middle East. The market in Dubai is currently providing us with a number of opportunities and our Middle East presence has been further strengthened by the capabilities offered by Mouchel. The acquisition of Mouchel has also brought new operations in Australia, principally through the DownerMouchel joint venture.

Q: What makes Kier's culture special?
When the business listed in the 1990s, a large percentage of the shareholders were employees, who naturally had a keen interest in our performance and direction. Our people remain very engaged with the Group's performance and strategy.

We are focused on creating a consistent culture across the Group following the recent acquisitions. When we bought Mouchel and May Gurney, we spent considerable time understanding their cultures and whether they complemented Kier's. We also focus on inducting employees into the Group, so that they have an understanding of our core values, how we work and what is expected of them.

Chief Executive’s strategic review continued

Q: How does Kier benefit from its broad capability offering?
Kier offers a breadth of capabilities. The key is being able to bring together the right skills from across our businesses, to solve our clients’ problems by providing an integrated offer. Our breadth of services means we can help clients to finance, plan, design, construct and maintain their assets. One of my responsibilities is to ensure that Kier’s senior managers are familiar with our full range of capabilities, so they can help clients to understand how we can best support them.

The Group’s breadth of services also provides a natural hedge, as the financial performance of our divisions is typically different through the economic cycle. This is particularly highlighted by the Group’s resilient performance during the recent recession where different parts of the Group were able to support other parts.

Q: Why do clients choose Kier?
Our aim is to deliver what we say we will deliver, to budget, to time and to the right quality. We believe that our integrity means that clients know what they will get from us, as demonstrated by the level of repeat business we secure. We are also selective about the projects we bid for and we believe that this bidding discipline is absolutely key to maintaining sound risk management processes.

Q: Why is your share price lower than before the Mouchel acquisition and rights issue?
The share price was affected by the rights issue under which we issued 39,646,692 new shares at 858 pence each to fund the Mouchel acquisition. This reduced the average value of our shares. However, shareholders had the right to buy new shares at the discounted price or they could sell their rights if they decided not to take them up.

Q: What should we expect from the Group over the next 12 months?
My priority remains to deliver Vision 2020. Following the acquisition of Mouchel, we are integrating those operations, ensuring we deliver the annualised pre-tax cost synergies of £10m from 2017. In addition, we now have an increased infrastructure presence and this creates additional opportunities.

As the economy improves and our pipeline of work increases, we need to maintain our bidding discipline and remain strict about our financial hurdles and other key performance indicators. We will also consider divesting those businesses which do not meet those standards. We are focused on continuing to improve the quality of our earnings and will be reviewing our portfolio of businesses to reflect the changing demands of the market.

We remain committed to maintaining our integrated approach, offering our services to help clients to address their budgetary challenges. Following strong results in 2015, we are able to look to the future with confidence.

Our 2015 Strategic Report, from pages 1 to 59, has been reviewed and approved by the Board of directors on 16 September 2015.

Haydn Mursell
Chief Executive

Creating sustainable value

Below we summarise the key elements that lead to the creation and protection of sustainable value. Our focused and integrated approach has already delivered tangible returns for shareholders.

We create a sustainable business by aligning our strategic priorities, managing our performance to address the risks and opportunities that we face and using our experience and ambition to drive our growth through our strategic priorities.

Context

Our markets
We are operating in a generally positive market overall, with good pipeline visibility. Investment in key market sectors, such as education and infrastructure, together with changes in public sector spend, provide a positive backdrop for our growth plans.

Page 12

Our business model
Vision 2020 is our strategic plan to grow the scale, coverage and profitability of the Group, delivered through our business model.

Page 14

Our vision
Our vision is to be a world-class, customer-focused company that invests in, builds, maintains and renews the places where we live, work and play.

Page 16

Our strategic priorities

1. Operate a safe and sustainable business

2. Accelerate growth to be a top three player in our chosen markets

3. Achieve top quartile performance and efficiency

4. Provide sector-leading customer experience

5. Attract and retain highly motivated, high-performing teams

6. Ensure the business is supported by investment in technology and back-office systems

Measuring success

Key performance indicators (‘KPIs’)
We have performed well against the majority of our KPIs against which we monitor our performance.

Pages 26 and 27

Risk management, principal risks and uncertainties
The Group has well-established risk management and internal control systems to manage the principal risks and uncertainties it faces.

Pages 32 to 37

Our markets

We are operating in a generally positive market environment overall, with good pipeline visibility. The following information summarises some of the key macro-economic and market trends affecting our business and contains data and information extracted without material adjustment from publicly available information or sources.[1]

The UK currently provides a positive environment for Kier. The UK economy is growing at a consensus annual rate of 2.6% and is forecast to grow at similar rates to 2020. A new majority Government provides policy stability. Government tax revenues have risen by 25% since 2009/10. Household spending rose by 4.2% in the year to June 2015 and business investment is up by 5.7% year-on-year. The UK was the third largest country for foreign direct investment in 2014 and continues to be attractive.

Overall, the UK economy has proved resilient to the effects of recent global political and economic instability.

Real GDP growth scenarios

Sources: ONS, OBR

UK infrastructure spend has strong visibility. Infrastructure improvement is central to the UK Government's policy, as a means of creating further economic growth and to address historic under-investment. Strategic highways has confirmed spend of c.£21bn to 2021 and, within the regulated utilities, the water sector alone will see £44bn of investment to 2020. Future spend on the rail network, where £38bn of expenditure in the 2014–2019 control period had previously been announced, is now subject to a Government review.

The Budget announcement of a Roads Fund to support a second Roads Investment Strategy, plus additional planned major infrastructure schemes, such as HS2 and Crossrail2, all add to a significant long-term pipeline of opportunity.

The UK Government's austerity programme provides an opportunity to differentiate. The pace of fiscal consolidation has eased, reducing its drag on growth. The austerity programme clearly creates a challenge for our public sector clients, particularly local government, which has an obligation to provide services to the public.

Over the last five years we have worked with a number of clients to develop better use of their property assets and innovative ways of delivering services within the budgets and resources they have available.

Kier offers a breadth of capability. Our breadth means we can help clients to finance, plan, design, construct and maintain their assets, and to optimise whole-life costs. We will continue to engage with the public sector in this way.

Activity in our main international markets remains resilient to commodity market fluctuations. In the Middle East, investment is being driven by fundamental drivers, notwithstanding the fall in oil prices. These include the need to diversify their economies and create infrastructure, healthcare, schools and housing for their growing populations.

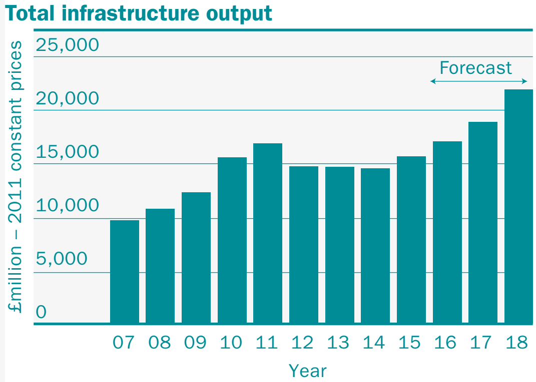
The Australian economy is forecast to grow, driven by population growth, improving Government finances, increased freight, and further expansion of the road network. The federal government is focusing on infrastructure spending, and, in particular, transport infrastructure to stimulate the 'post-resources' economy – an A$11.6bn Infrastructure Growth Package was included in the 2014 Budget.

Demographic changes are creating opportunities. In the UK, the number of people aged over 65 has increased by 17% since 2003 and is forecast to increase further. The ageing population will continue to drive expenditure on health, care services and a changing profile to residential property needs.

Almost 60% of population growth for the next 25 years is forecast to come from the net effect of more births than deaths. This population growth will create demand for more schools, universities and better social infrastructure.

At the same time social and lifestyle changes, such as the increase in single person households (5.5% growth over the last 10 years) and older people downsizing, will increase the demand for housing and change the type of housing demanded.

Total infrastructure output



Sources: ONS, Construction Products Association

[1] Sources: HM Treasury; HMRC; Office for National Statistics; UK Trade & Investment; Capital Economics; Al Arabiya/Saudi Gazette; Savills; Construction Products Association; Financial Times; Institute for Fiscal Studies; BDO; CBI.

Property

We have significant opportunity to further penetrate property markets by combining our non-speculative development offering, our equity investment capability and our integrated offering.

- Low interest rates and improved market confidence are key influences on future market growth.
- At a regional level in the UK, private sector commercial development activity is growing in the South East, London and the regions. As at July 2015, the South East saw its highest level of activity for 16 months, whilst London and the rest of the UK were seeing the fastest rate of expansion since May 2014 and October 2014 respectively.
- In terms of sectors, industrial/warehouses, retail and leisure and commercial offices have all reported consistently strong growth.

Residential

Operating in the housing development and building markets, our residential housing activities will benefit from the growth in the housing market, driven by an acute shortage of housing.

- Estimates suggest that there is a requirement for 240,000 new homes per annum in England, compared with current output levels of circa 140,000 per annum.
- Housing demand has been increasing, with the RICS new buyer enquiries balance at its highest level for more than 12 months. This is being supported by rising earnings and improving consumer confidence.
- Completed housing transactions are forecast to grow year-on-year beyond 2017.
- Government measures to ease the planning permission framework and release public sector land for housing development, together with the proposed extension of Right to Buy to housing associations are expected to increase further the demand for affordable housing construction.

Construction

We have a leading position in regional building and in the health and education marketplaces, with a growing presence in infrastructure and defence.

- Overall construction activity is growing faster than the UK economy; total construction output grew at 9.5% in 2014 and is forecast to grow by 21% from 2014 to 2019.
- Annual expenditure on infrastructure construction is expected to rise by 72% cumulatively from 2014 to 2019.
- Annual construction expenditure in the commercial sector is forecast to rise by 23% from 2014 to 2019, driven particularly by activity in offices. Whilst London accounts for about a third of the activity in offices, growth is also forecast in other major cities and the regions.
- Construction expenditure on education and health forecast to grow by about 13% from 2014 to 2019.
- Overall defence spending is now protected at 2% of GDP, with the detail of the breakdown subject to the 2015 Strategic Defence and Security Review ('SDSR'). It is expected that the SDSR will continue to support an active development of the MOD's property estate to meet changing operational needs.
- Construction in GCC countries is expected to show double-digit annual growth until the end of 2016 to US$126.2bn.

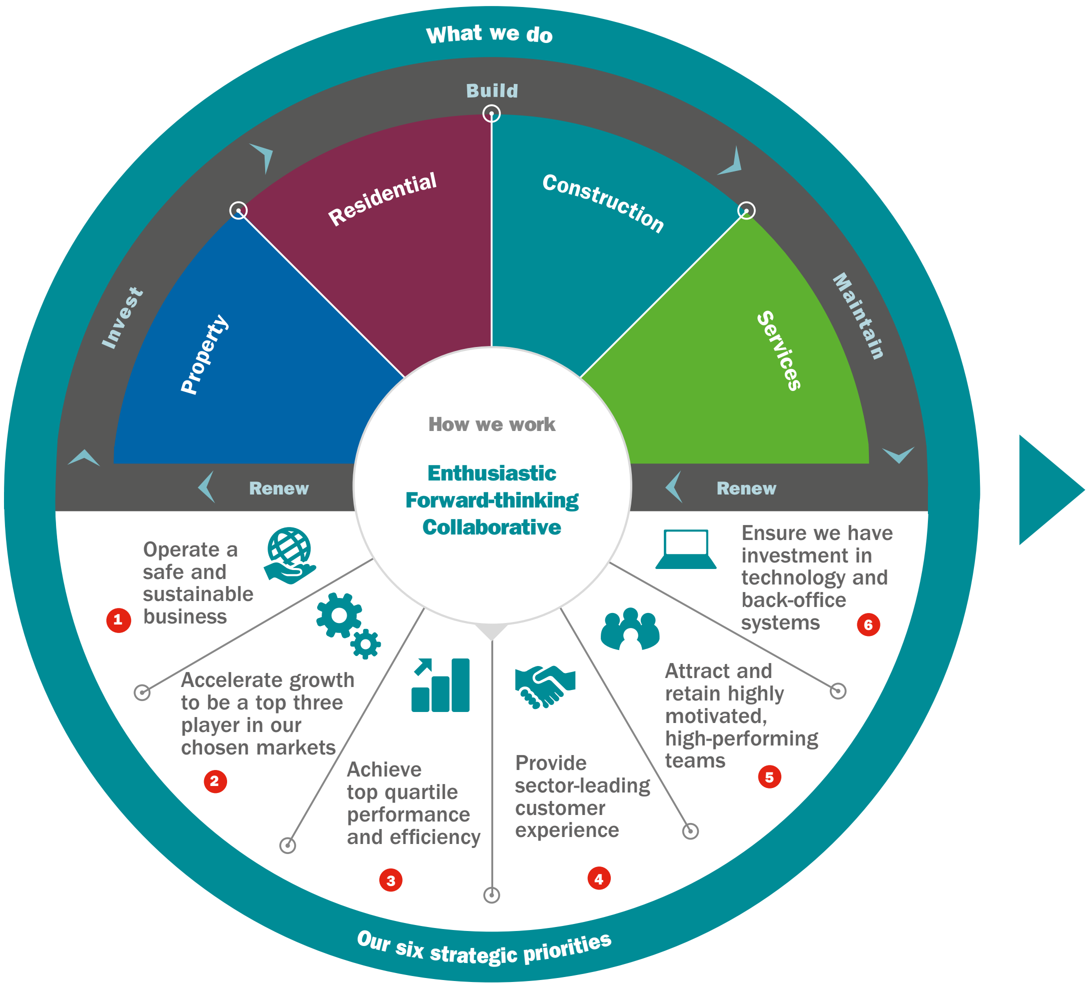
Services

In the UK, we have good positions in the highways maintenance, water utilities and housing maintenance markets, an established position in facilities management and opportunities in adjacent markets. We now also have a leading position in the Australian roads maintenance market.

- The strategic highways market has significant visibility under the Roads Investment Strategy ('RIS') for 2015 to 2020 and the announcement of a second RIS funded by a new Roads Fund.
- The water utilities market has mandated spend by Ofwat, under AMP6, of £44bn from 2015 to 2020.
- 'Austerity' measures continue to put pressure on public sector budgets, creating both challenges and opportunities for outsourcing and innovation. The details of the UK Government's Spending Review on specific central and local government budgets are due to be published later in 2015. However current estimates suggest that non-protected areas of expenditure will face cuts of 12.6% between 2015 and 2020.
- In Australia, total outsourced expenditure on highways and arterial roads maintenance is forecast to grow by 22% from 2015 to 2019 and reach A$2.2bn, in part driven by a predicted increase in the outsourcing rate from 55% to 63%.

Our business model

Vision 2020 is our strategic plan to grow the scale, coverage and profitability of the Group. Our business model provides the foundation and rationale underlying this growth strategy.



Our strategic priorities

We will build continually on our business model to enable us to achieve our growth plans and implement our Vision 2020 strategy.

This requires us to invest in and develop further the core capabilities of the Group. In particular, we will seek to maintain strong client relationships by delivering sector-leading customer experience. It also requires highly motivated teams aligned to our strategy and our values, and robust technology and back-office systems to underpin our efforts.

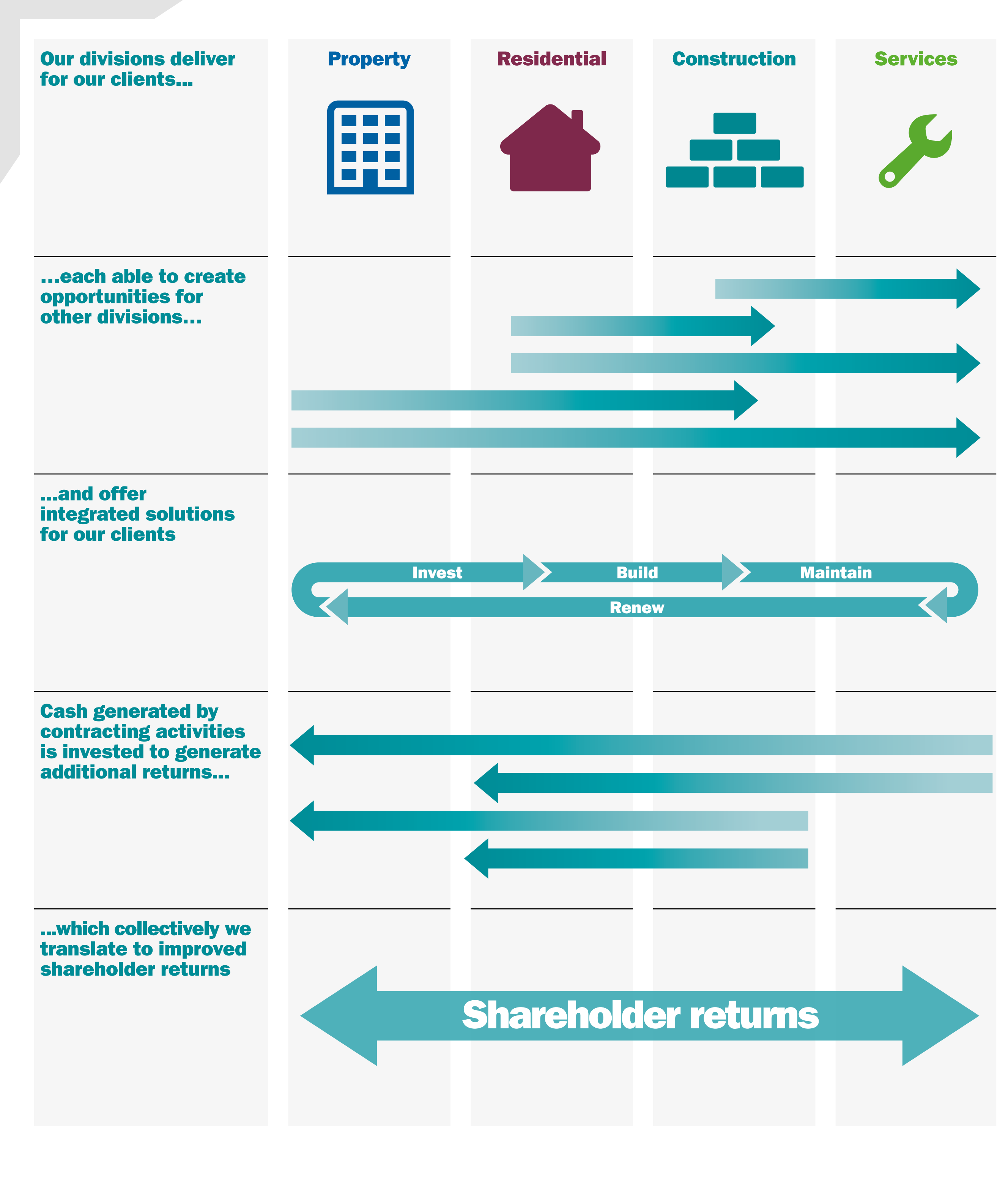
Our strategic priorities are focused on building such capabilities.

Our integrated offer

The Group has a broad range of capabilities across its four divisions. This breadth means we can help clients to fund, plan, design, build and maintain their assets to optimise their whole-life cost. The Group's structure works because our customer-focused approach enables us to develop opportunities for our different business streams through our strong and strategic client relationships.

This approach means that we can maximise our returns using the cash generated by low capital intensive/cash-generating businesses to invest in high capital-intensive activities elsewhere in the Group.

In this manner we create value for our customers and for our shareholders.



Progress against our vision and strategic priorities

Our vision

Our vision is to be a world-class, customer-focused company that invests in, builds, maintains and renews the places where we live, work and play.

Our strategy – double-digit growth

Our strategy aims to leverage our integrated offering to deliver double-digit compound annual growth in operating profit through to 2020.

To maximise the opportunity for growth we need to exploit and invest in the development of our integrated offering.

To achieve Vision 2020, we have identified six imperatives:

1. Operate a safe and sustainable business;
2. Accelerate growth to be a top three player in our chosen markets;
3. Achieve top quartile performance and efficiency;
4. Provide sector-leading customer experience, for clients and for their customers;
5. Attract and retain highly motivated, high-performing teams; and
6. Ensure the business is supported by investment in technology and back-office systems.

Our priorities are set at a Group level with detailed targets and performance plans identified for each objective. These are further aligned and co-ordinated through the business plans of our four divisions.

Strategic priorities

Operate a safe and sustainable business

Accelerate growth to be a top three player in our chosen markets

Achieve top quartile performance and efficiency

Provide sector-leading customer experience

Attract and retain highly motivated, high-performing teams

Ensure we have investment in technology and back-office systems

90%
Clients totally or mostly satisfied with Kier

87%
Kier's BiTC score tracking year-on-year improvement in sustainability

Achievement in 2015	Targets for 2016
• A 14% improvement in our UK business, offset in part by an increase in reportable incidents in our international business • An enhanced behavioural safety programme introduced and being rolled out across all our businesses • Health and Wellbeing programme launched in July 2015 • Launched our new Strategy for a Sustainable Business ('Responsible business, positive outcomes')	• Develop our approach to occupational health and associated reporting metrics • Integrate Mouchel into the Kier corporate responsibility programme • Embed the Group's Strategy for a Sustainable Business within all our businesses • Driver risk management programme to be rolled out
• A Group-wide sector business development capability is now established • Continued to penetrate our target market sectors, with strong positions in the transport, education, health and local government sectors • Leading player in the UK and Australian strategic highways maintenance markets • Acquisition of Mouchel has accelerated our growth and our position in key markets • Expanded our internal capability to target and deliver acquisition opportunities	• Integrate Mouchel • Develop strong growth opportunities in our strategic and key accounts • Evaluate new market sectors and take steps to enter where appropriate
• Improved our underlying profit margins from 3.0% to 3.1% • Continued to extend our governance framework across the Group • Established a Group performance scorecard • Disposal of our Fleet & Passenger Services business	• Disposal of our UK mining business • Create synergies from the Mouchel acquisition • Roll out standardised reporting processes across all businesses • Review the Group's KPIs to ensure ongoing relevance and effectiveness in supporting the management of the business
• 90% of customers surveyed were totally or mostly satisfied with Kier • Completed year 1 of our 'Listen, Act, Measure' programme to measure client satisfaction in a consistent way across Kier • Focused improvement activity on key stages and milestones of the customer journey • Introduced a customer experience toolkit to support bespoke action plans for specific clients	• Introduce consistent method to measure satisfaction and experience for our clients' customers • Roll out client specific excellence plans to enhance the experience of our clients and their customers • Continue to embed a culture of customer excellence
• During 2015 we focused on investment in our human resources capability and resources across the Group • Management development programmes reviewed and conclusions built into a new approach to talent management • Pulse employee engagement surveys introduced and taking place in between full surveys to give managers regular snapshots of progress • Increased our graduate and apprentice intake and launched skills academies in our utilities, highways maintenance and housing maintenance businesses	• Develop a compelling employee offer and clear career pathways to recruit, develop and retain talented people across the Group • Implement a single talent and succession management approach • Design and implement a refreshed leadership development offer, aligned to the Kier values • Implement a single performance management approach that clearly links individual and team objectives to the Kier strategic objectives • Continue to build insight and take action to improve employee engagement
• A new customer relationship management system has been successfully deployed to support business development and has had a high level of take-up • Developed multiple Kier 'apps' to support the effectiveness and efficiency of business operations, with more being developed • Planning and development of the new ERP system and HR and finance change programme	• Implement and commence the roll-out of the initial phases of our new ERP system and HR and Finance change programme • Integrate Mouchel • Implement next generation frontline systems for Services division and progress roll-out • Increase the penetration of Building Information Modelling ('BIM') across our Construction division

Our strategy in action

How this supports Vision 2020:

The acquisition brings together Mouchel's leading position in strategic highways services and Kier's presence in the local authority roads markets making Kier the sector leader in the growing highways market.

Mouchel

Creating a sector leader in a growing market

The UK's roads are a vital part of our national infrastructure and key to economic growth. As a result, the UK Government has significantly increased its investment in this area, making highways an even more attractive market for Kier.

We have built a strong position in maintaining local authority roads and have begun to develop our business in the strategic roads market, through our place on Highways England's collaborative delivery framework and the award of a £475m Smart Motorway Programme contract, in joint venture.

Our acquisition of Mouchel has transformed our position, making us a sector leader in highways management and maintenance and accelerating our progress towards Vision 2020. Critically, Mouchel's strength in strategic roads complements our local authority business and gives us access to Highways England as a strategic partner. Highways England will invest £17bn in the strategic road network over the next five years, increasing the scale of opportunity available to us.

Mouchel's commitment to excellent customer experience is second to none. The highways business was rated as the top key supplier out of 20 companies for alignment with Highways England's strategy. In addition, their Area 3 Asset Support Contract ('ASC'), which covers central southern England, was the best performing of Highways England's ASCs over the last 12 months. Given the quality of Mouchel's delivery and relationships, ensuring we retained its key people has been an important element of our acquisition integration process.

How this supports Vision 2020:
The UK infrastructure market remains a key sector for Kier in view of greater Government investment.

Mersey Gateway

Delivering one of the UK's largest infrastructure projects

Merseylink, our consortium with Samsung C&T Corporation and FCC Construcción SA, is constructing the Mersey Gateway project – one of the largest current infrastructure initiatives in the UK.

The centrepiece is a new six-lane toll bridge over the River Mersey, between Widnes and Runcorn, in addition to upgrades to more than 9km of local roads. The project is expected to create more than 4,600 permanent jobs and contribute in excess of £60m a year to the local economy by 2030.

The project uses innovative construction methods including the creation of a temporary bridge and using a moving scaffold system to improve access to the bridge construction site. This increases efficiency and reduces the amount of costly work that must be undertaken on the water. We are also carefully protecting the local environment, using clearly defined access routes to protect nearby sites of special scientific interest.

We are committed to recruiting people from the local area and to employing apprentices, to develop the skills young people will need for a career in the construction industry.

A joint venture is a learning and personal development opportunity for our staff. Through regular two-way communication and senior management visits, our joint venture employees bring that learning back into Kier.

How this supports Vision 2020:

The partnership accesses the Group's broader property and strategic asset management capabilities, providing opportunities for growth through our integrated offering.

Staffordshire Strategic Property Partnership

Delivering a broad and integrated service through a unique partnership

This year the Staffordshire Strategic Property Partnership was formed by combining public and private sector skills and knowledge.

Kier began a ground breaking 10-year strategic property partnership with Staffordshire County Council and Staffordshire's Police and Crime Commissioner ('PCC'). Together, the public sector partners own around 450 properties in the county. Drawing on our broad integrated capabilities in development, regeneration, disposal, acquisition, construction, asset management and facilities management, the partnership will unlock value from surplus land and empty or under-used buildings, revitalising them to offer new jobs, homes and developments.

As part of the partnership, the Council and PCC provide details of their property assets, local needs and access to other public sector organisations, which may have adjoining assets that can be pooled with the partnership's projects. Kier has appointed staff to the partnership, to provide expertise and advice on those assets, developing and managing the partners' property assets. In return, we have first option on providing services to the partnership, subject to demonstrating value for money criteria.

The partnership is unique in the breadth of services it commissions and in its operation. Its long-term strategic approach also allows it to undertake socially valuable projects that are not immediately financially viable on a stand-alone basis, by combining them with projects that achieve greater financial benefits. In its first year, the partnership will consider nearly 40 projects, ranging from facilities management and a new headquarters for the police to residential schemes including new office accommodation for the Council.

In addition, the county's other public sector bodies can use the partnership to deliver their property-related initiatives. This will save them time and money compared with traditional procurement and access to expertise.

In summary, the partnership can achieve outcomes that neither party could deliver alone, improving overall client satisfaction.

How this supports Vision 2020:

Increasingly projects involve teams from across the Kier businesses. Kier holds a 16% equity stake in VIEW 58 and is also the development manager. This development showcases the capabilities of both our Construction and Property teams.

Victoria Embankment – VIEW 58

Enhancing our returns through sustainability

By taking an integrated and sustainable approach to construction, we develop attractive buildings that give our customers a great customer experience and a unique final product.

Through our joint venture with FORE Partnership, the pan-European real estate investment club for family offices and private investors, we are constructing, jointly funding and developing VIEW 58, a highly sustainable office building in central London. The project draws on capabilities from Kier's Property and Construction divisions.

Sustainability is at the heart of the strategy being developed for the building. VIEW 58 is sensitive to the local area, being on the River Thames Embankment in London. The development is retaining the existing façade while creating highly functional contemporary offices behind it, diverting 99% of the demolition waste from landfill and recycling it. The building is designed to exceed a BREEAM Excellent rating and incorporates green technologies such as a sophisticated building management system and solar photovoltaic panels that generate power from both their tops and undersides.

VIEW 58's integrated vision of sustainability goes beyond traditional carbon reduction. For example, the design provides collaboration and exhibition space, which will enable organisations using the building to come together and to engage with the community.

In July 2015, FORE and Kier announced VIEW 58's sale for £50.95m to Nesta, a charity with a mission to drive innovation in the UK. The building's sustainability standards were an important factor in Nesta's decision. VIEW 58 supports Nesta's values, reducing its running costs and providing a hub for organisations committed to innovation.

Key performance indicators

Financial[1]

Key performance indicator	Aim Alignment to strategic priorities	Progress in 2015	Comment
Revenue growth[2]	Deliver annual revenue growth in line with Vision 2020	**15 £3,351m** 14 £2,938m 13 £1,958m	In the year we achieved 14% growth in revenue, principally through organic growth, and achieved leading positions in the UK and Australian strategic highways markets.
Underlying operating profit[3]	Maintain consistent underlying operating margins	**15 £103.7m** 14 £87.3m 13 £52.6m	19% growth in underlying operating profit, in line with our target to produce double-digit compound annual growth in profits through to 2020.
Underlying EPS[4]	Achieve long-term growth in EPS	**15 96.0p** 14 87.5p 13 78.9p	We are focused on shareholder value and maximising sustained growth in EPS. Underlying EPS has increased 10% in the period.
ROCE (‘Return on Capital Employed’)[5]	Achieve ROCE above the Group’s target of 15%	**15 13.9%** 14 14.8% 13 24.4%	Return on average capital employed decreased during the year reflecting an increase in underlying operating profit offset by net investment in the business and its systems, the acquisition of Mouchel and contributions to pension deficit recovery plans. As previously stated, the May Gurney and Mouchel acquisitions are targeted to deliver 15% ROCE by 2016 and 2017 respectively.
Underlying economic profit[5, 6]	Achieve steady growth in economic profit	**15 £39.5m** 14 £33.6m 13 £30.1m	We seek to generate returns that exceed our weighted average cost of capital, currently 8.6%, to ensure we add value from our investment decisions. The economic profit generated increased by 18% in the year to £39.5m as a result of increased profitability and a reduced cost of capital.
Debt cover[7] (net debt/ underlying EBITDA)	Ensure debt is conservatively managed to improve cover towards a medium-term target of 1.0x underlying EBITDA	**15 1.6x** 14 1.7x 13 n/a	Moving towards our medium-term target of 1.0x EBITDA due to improved working capital management and increased profit.
Shareholder return	Maintain a progressive dividend policy and deliver annual growth	**15 55.2p** 14 57.6p 13 54.3p	The total dividend declared this year is £47.3m which represents a 20% increase on 2014 (£39.4m). On a statutory basis, the dividend per share (‘DPS’) paid and proposed in the year of 55.2 pence is a 4% reduction on the restated DPS in 2014, as a result of the calculation of DPS assuming that the shares in issue following the rights issue associated with the Mouchel acquisition in June 2015 had been in issue for the full 12 month period.

Strategic priorities

- Operate a safe and sustainable business
- Accelerate growth to be a top three player in all our markets
- Achieve top quartile performance and efficiency
- Provide sector-leading customer experience
- Attract and retain highly motivated, high-performing teams
- Ensure we have investment in technology and back-office systems

Non-financial

Key performance indicator	Aim Alignment to strategic priorities	Progress in 2015	Comment
Safety – accident incidence rate ('AIR')[8]	Achieve year-on-year improvement in AIR and remain below the Health and Safety Executive benchmark for the UK	**15** **319** 14 342 13 506	We have achieved a 14% improvement in our UK business, partially offset by an increase in reportable incidents in our international business. We have continued to drive significant improvement in the safety performance of the former May Gurney activities.
Customer experience	Deliver a high level of customer satisfaction which is key to supporting sustainable long-term growth across our markets and client base	**15** **90%** 14 n/a 13 n/a	We have this year introduced a common and independently audited client satisfaction measure across all our businesses. 90% of our customers were totally or mostly satisfied with Kier. We had a Net Promoter Score in 2015 of +52.
Employee engagement	Achieve a continuous improvement in the employee engagement survey score	14 Property 63% 14 Residential 77% 14 Construction 67% 14 Services 48%	Full employee surveys are carried out biennially and the next survey will be in 2016. In between we carry out pulse surveys, the results of which in 2015 have indicated an improving level of engagement.
Employee retention	Retain employees at or above industry average	**15** **85%** 14 88% 13 90%	In line with the experience of other UK businesses in 2014/15, as the economy recovered, the level of voluntary leavers increased in the year, but remains in line with industry averages.
Sustainability[9]	Maintain a high ranking in Business in the Community's Corporate Responsibility index	**15** **87%** 14 85% 13 n/a	In 2014/15 we have delivered significant improvements in our approach to stakeholder engagement and launched our new Strategy for a Sustainable Business.

1 Financial information in this table relates to continuing operations. Prior years restated to reflect the reclassification of the UK mining activities to discontinued operations.
2 Group and share of joint ventures.
3 Stated before non-underlying items; see note 4 to the consolidated financial statements.
4 2013 and 2014 have been restated for comparison, reflecting the rights issue associated with the acquisition of Mouchel.
5 During the year we revised our methodology for assessing capital employed to take account of the average capital employed at each month end during the year, rather than the balance at the end of the year. 2013 and 2014 have been restated for comparison.
6 We calculate economic profit by taking underlying operating profit[3] and subtracting average capital employed, multiplied by the weighted average cost of capital.
7 Our measure of debt cover has been updated to measure net debt divided by underlying EBITDA (as a proxy for operating cash flow). Net debt includes finance lease obligations. The Group held a net cash balance of £46.1m as at 30 June 2013.
8 Accident statistics for 2013 and 2014 have been restated to include May Gurney, which was acquired in the 2014 financial year, on a pro forma basis in both years.
9 Business in the Community ('BiTC'), whose index we use, has recalibrated the index. We have reviewed this KPI, as we anticipated doing, and have restated 2014 using the new index.

Resources and relationships

Responsible business, positive outcomes

For Kier to achieve and sustain the ambitious growth plans set out in its Vision 2020 strategy, it is essential for us to address and mitigate each identified non-financial risk which could compromise our financial targets. Our full Corporate Responsibility Report for 2015, 'Enabling sustainable business' http://www.kier.co.uk/crr2015, expands upon this process.

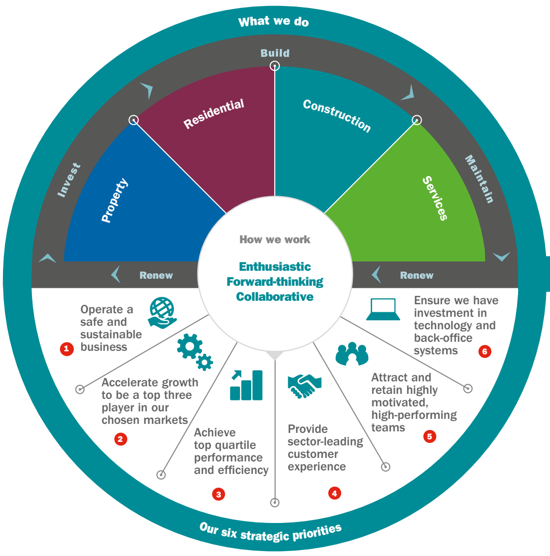
In the year Kier has made great strides in evolving its Strategy for a Sustainable Business. This addresses and supports the changing dynamics of our broader, growing operations through a range of environmental and social measures, all integrated and aligned with the core non-financial strategic priorities, principal risks and opportunities and KPIs that underpin the Group's stated financial targets. These are now being embedded within our individual business streams for consistent, measurable delivery across the Group. We have identified six immediate priority areas shown opposite.

Through in-depth engagement we have ensured the issues being addressed by our corporate responsibility programme are of material importance to our main stakeholders, particularly employees, clients and shareholders. This will enable us to deliver resource efficiencies and sustainable growth in our chosen markets in a responsible and ethical manner.

Strategy for a sustainable business

Vision 2020

Our five-year strategy for a sustainable business, launched in 2015, addresses many of the non-financial strategic priorities, risks and KPIs identified in Vision 2020. Not only does the new sustainability strategy and its focus areas, listed in the table here, help to deliver the strategic priority to 'Operate a safe and sustainable business' but it also supports the other strategic priorities, particularly 'Provide sector-leading customer experience', 'Attract and retain highly motivated, high-performing teams' and 'Accelerate top quartile performance and efficiency'.



*Data related to non-financial performance does not include Mouchel for the period being reported.

	Focus area
People and communities	Safety, health and wellbeing
	Employee engagement and retention
	Diversity
	Training, education and apprenticeships
	Society and community
Environment	Carbon
	Waste
	Water
	Biodiversity
	Environmental incidents
Marketplace	Customer experience
	Citizenship and community engagement
	Sustainable supply chain
	Labour standards and human rights
	Material standards
Governance	Stakeholder engagement
	Governance – Reporting and assurance
	Governance – Risk and opportunity
	Business ethics
	Reward scheme

Our core sustainability priorities for 2015/16

Safety, health and wellbeing
A target accident incidence rate of zero is Kier's top priority. The 'Visible Leadership' programme launched in July 2015 will challenge our business leaders to ensure they create an environment where everybody working on our behalf is safe.

Sustainable supply chain
We will develop relationships that satisfy our requirement for social and ethical procurement and to meet or exceed our clients' expectations. Social and ethical procurement lets us achieve our ambitions to respect the human rights of everyone connected to our business either directly or through the supply chain.

Customer experience
Our stakeholders identified their overall experience of dealing with Kier as being the most important issue to them. Delivering high levels of satisfaction to all of our customers is fundamental to our success as a business. Our 'Listen, Act, Measure' programme enables us to test, review and improve our performance to drive increased loyalty from our clients.

Mouchel
We are carefully integrating Mouchel into Kier's Strategy for a Sustainable Business – 'Responsible business, positive outcomes'. The integration will have a minimal impact on our day-to-day operations, but ensure we are all able to deliver our common goals as part of the Group's overarching strategy, Vision 2020.

Emerging legislation and regulations
The operating landscape constantly changes. Recent examples of new responsibilities include the Social Value and Modern Slavery Acts which we have responded to in our Strategy for a Sustainable Business – 'Responsible business, positive outcomes'.

Citizenship and community engagement
The reputations of Kier, our clients and our supply chain depend on how we deliver our services and engage with our stakeholders. We are in the process of developing a new code of conduct to help guide how we can make a positive contribution to the communities where we work.

2020 target	2014/15 progress*	Comments
Zero AIR	AIR of 319 (2014: 342). Introduction of All Accident Incidence Rate as a leading metric	This leading measure will help us identify the contributing factors and avoid the occurence of serious accidents, creating a safer working culture
75% employee engagement rate	Pulse survey introduced to measure progress from 2014	The more engaged our employees are, the better the customer experience which directly contributes to our future business success
70:30 male to female ratio for new recruits	Baseline being established for new recruits	Increasing the diversity of new hires will have the fastest impact on our diversity mix overall
5 training days per employee	Baseline being established	This is a measure of our commitment to invest in the learning and development of our people
10% additional social value created	Methodology being prepared to allow consistent measurement of outcomes	We generate financial benefits for society. We aim to express this value more clearly
10% reduction from 2014 baseline (emissions/£)	2% reduction in intensity ratio achieved	Our focus on managing emissions is helping to control cost of fuel
30% reduction from 2014. Measure and report progress	Waste/£ increased but volumes recovered and recycled increased	Reducing waste helps to reduce environmental impacts and control costs
10% reduction from 2015 benchmark	Monitoring agreement reached with third party	Better monitoring will allow us to identify opportunities for more efficient use
1 Biodiversity Interest Group challenge per £50m of revenue	Monitoring system and procedures put in place. 22 challenge case studies completed (1 per £133m revenue)	We will continue to identify and realise opportunities to enhance biodiversity on our sites
25% reduction in All Environment Incidence Rate from 2015 benchmark	Monitoring system and procedures put in place	We will avoid major incidents by paying greater attention to near misses and minor incidents
90% client and customer satisfaction	90% of clients satisfied with Kier's performance. Net Promoter Score of +52 indicating high levels of loyalty	Delivering an excellent customer experience helps to secure future growth for Kier
80% (40/50) average score in Considerate Constructors Scheme ('CCS')	77% (38.25/50) achieved	We are planning to widen the CCS principles to our non-construction and international operations
Number of partners engaged in the Supply Chain Sustainability School	Increased by 10%	This helps us to work with a better qualified supply chain
Meet core principles of UN Declaration of Human Rights	Refreshed responsible procurement policy agreed. Initial standards to be launched in 2015/16	This helps Kier to meet its ethical responsibilities and comply with the Modern Slavery Act. The standards provide clear guidance for all our procurement activities for social and environmental issues
100% compliance with Kier material standards	Measure and report compliance	We will audit a sample of both our direct and sub-contract procurement
Annual independent review of our strategy by Business in the Community ('BiTC')	One additional stakeholder engagement activity to understand their view of material issues	Kier will also be completing more detailed shareholder engagement
G4 – integrated reporting to Global Reporting Initiative ('GRI') G4 standard	Reported to GRI G3 C+ standard	Reporting to a common standard aids transparency and understanding of Kier's strategic approach
Quantify risk across non-financial measures	Identified critical non-financial issues	Non-financial issues can still have a financial impact, both positive and negative. The challenge is to identify the best ways to convert or express these impacts in our overall approach to risk management
Zero overdue whistle-blowing incidents	Review of Group code of conduct	Constant reviews of our business ethics policies ensure compliance with any new regulatory requirements and ensure our ethical approach to business and people
Reward scheme non-financial performance	Proposals under review	Closer alignment of rewards to non-financial performance better reflects the value of these issues to business sustainability

Our achievements in 2014/15[1]

Environment

Breakdown of carbon emissions data

Relative emissions (intensity ratio) declined by 2% to 50.4 tonnes CO_2e/£1m revenue. This can in part be attributed to the consolidation of our permanent estate and the move to more efficient offices. Our absolute emissions increased due to the first full-year inclusion of May Gurney which we acquired in 2013. Our continued focus on the efficient use of energy in our business continues to see us move towards our target of a 10% reduction in emissions per £/revenue. Our ambition is to be able to assess and influence supply chain emissions to achieve the same.

Emission type	CO_2e tonnes 2013	CO_2e tonnes 2014
Scope 1: Operation of facilities	0	0
Scope 1: Combustion	113,399	129,756 (+14%)
Scope 2: Purchased energy	12,192	15,634 (+28%)
Total emissions	**125,591**	**145,390 (+16%)**

Greenhouse gas emissions intensity ratio	2013	2014
	51.5t/£m	**50.4t/£m (-2%)**
Turnover (£m)	**2,439**	**2,885**

Supporting context:

- We have reported on emissions sources as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.
- We have excluded our Scope 1 fugitive emissions and we do not account for any share of any joint venture or joint agreements in our carbon footprints unless we are in majority control.
- Our dataset covers 92% of the total revenue of Kier. This is the figure that our emissions/£ are based on.
- The period of our report is 1 January 2014 to 31 December 2014 to mirror our reporting to the Carbon Disclosure Project.
- Our methodology has been based on the principles of the Greenhouse Gas Protocol. Conversion factors for electricity, gas and other emissions are those published by the Department for Environment, Food and Rural Affairs in 2014.

Breakdown of business construction, demolition and excavation waste

The amount of construction, demolition and excavation ('CDE') waste Kier Construction sent to landfill in 2014 increased from 8.2 tonnes/£100,000 revenue to 9.4 tonnes/£100,000 revenue.

Also, over the same period the amount of waste produced increased from 37.2 tonnes/£100,000 revenue to 44.5 tonnes/£100,000 revenue.

The percentage of CDE waste diverted from landfill increased from 78% to 79%.

Construction division – CDE waste data

Year	Tonnes of waste generated per £100k	Tonnes of waste to landfill per £100k	% of waste diverted from landfill per £100k
2012	52.3	9.7	81%
2013	37.2	8.2	78%
2014	44.5	9.4	79%

This dataset is for our Construction division only and represents 32% of our Group revenue. We estimate this accounts for more than 80% of all waste produced.

Data from SMARTWASTE for all businesses – CDE waste

Year	Re-used	Recycled	Landfilled
2013	39%	31%	29%
2014	40%	34%	26%
2015	41%	38%	21%

This data is collated from a sample representing 39% of Kier Group by revenue. We estimate this accounts for more than 80% of all waste produced.

Social

Diversity, equality and human rights

Kier's employment policies follow best practice and are created around equal opportunities for all employees irrespective of sex or sexual orientation, ethnicity, age, disability or marital status. Our constant is to recognise everyone as an individual, and that they have different needs but that they also bring different skills to our Group. We want employees to know they are working where they will be treated with dignity and respect and, as a consequence, feel enabled to make a contribution to Kier's success. Our various employment, ethics and procurement policies are written to protect the human rights of our employees and parties engaged with our business. There have been no related issues during the financial year.

Diversity of employees

	Male	Female
All employees	12,533 (80%)	3,180 (20%)
At senior manager grade	1,206 (93%)	84 (7%)
At director grade	5 (71%)	2 (29%)

Ethnicity[2]

White – 54%, Black and minority ethnic groups – 3%
Not stated – 43%

Community engagement

115,036
Employee hours
(2014: 161,799)

£2.2m
Equivalent value of employee hours
(2014: £2.9m)

Kier calculates the value of time given by its employees to volunteering by using a nominal value for each hour of £31. Kier recognises that a percentage of staff time is given to training/supervising apprentices and uses a nominal value for each hour given to providing this support of £18. The hourly rates have been revised in line with the growth of the business which has seen a larger blue-collar workforce, which has resulted in the value of an hour's volunteering being reduced from £44 to £31 and the value of an hour given to support apprentices increasing from £16 to £18.

Considerate Constructors Scheme

Kier is an associate member of the Considerate Constructors Scheme. We use this independent scheme to assess the performance of our operational sites in the UK.

	Average Group score	Industry average
2014	37.62 (75%)	35.29 (71%)
2015	38.25 (77%)	35.74 (71%)
2020 target	40/50 (80%)	

1 Data related to non-financial performance does not include Mouchel for the period being reported.
2 Data is based on a spot audit of UK employees (excluding overseas and Mouchel employees).

Stakeholder engagement 2015

We have been developing our approach to the non-financial elements of our Strategy for a Sustainable Business – 'Responsible business, positive outcomes' ('RBPO'). Through our engagement exercises with business leaders, employees, clients, shareholders and non-governmental organisations we sought to understand that these issues in RBPO were of most material importance in our relationship with them.

The final results shown in the figure below illustrate how our stakeholders ranked issues from low to high importance, though all are still relevant to how we operate our business, directly contributing to our profitability and overall value proposition.

The most important issue for stakeholders is 'Customer experience'. Delivering and exceeding the expected outcomes of clients will always be a key focus for Kier and one of our key non-financial KPIs.

The following headings are from Kier's strategy for a sustainable business, listed in order of material importance to our stakeholders:

1. Customer experience
2. Citizenship and community engagement
3. Sustainable supply chain
4. Safety, health and wellbeing
5. Labour standards and human rights
6. Carbon
7. Waste
8. Material standards
9. Business ethics
10. Training, education and appenticeships
11. Governance – risk and opportunity
12. Society and community
13. Employee engagement and retention
14. Stakeholder engagement
15. Reward scheme
16. Water
17. Diversity
18. Governance – reporting and assurance
19. Environmental incidents
20. Biodiversity

Key:
- People and communities
- Environment
- Marketplace
- Governance

Group Corporate Responsibility Report 2015

The full Kier Group CR Report 2015, 'Enabling sustainable business', can be downloaded from our website at http://www.kier.co.uk/crr2015. This report, which supports and expands upon the matters reported in this section, has had external assurance by PwC and has been self-assessed to comply with application level C+ of the GRI G3 Sustainability Reporting Guidelines.

It is important to our stakeholders, especially investors seeking socially responsible businesses, that we can demonstrate a genuine commitment to undertake our work in an environmentally, socially and ethically responsible way. The CR Report explains in detail our approach to, and performance in, ensuring Kier is a sustainable business. It also addresses those risks that could compromise this commitment.

We have addressed the 20 KPIs identified under the four broad headings of people and communities, environment, marketplace and governance. This will help us to achieve our financial ambitions and become more efficient, as well as being socially and environmentally responsible. This will also help all our stakeholders to better consider and evaluate the full and tangible value of our non-financial strategic priorities, KPIs and risk mitigation in supporting our long-term financial performance.

In September 2015, we will undertake a shareholder engagement exercise including many of our leading investors, to share with them our draft CR Report 2015 and to seek their feedback on what elements of our reporting are of most material importance to them in making their investment decisions. Our website will contain the outputs and the outcomes of this exercise and will be found at http://www.kier.co.uk/crshareholders2015.

Risk management

The Board is responsible for the Group's system of risk management and internal controls and for ensuring that significant risks, including those potentially affecting achievement of the Group's strategy, are identified and appropriately managed. The Board has delegated the review of the effectiveness of the Group's risk management processes to the Risk Management and Audit Committee, including the systems established to identify, assess, manage and monitor risk.

How the Group identifies and manages risk
Managing risk effectively is fundamental to the delivery of our strategic priorities. The illustration below sets out the key elements of the risk management process and the key contributors to that process:

How the Group identifies and manages risk

Board

Strategic priorities – The Board determines its strategic priorities

Principal risks – On an annual basis, the Board, in conjunction with the business, identifies the principal risks faced by the Group

Risk management and internal control – The Board is responsible for the Group's risk management and internal control systems

Risk Management and Audit Committee
The Board delegates responsibility for reviewing the effectiveness of the Group's risk management and internal control systems to the Risk Management and Audit Committee

Risk Management and Audit Committee
- Responsible for overseeing the Group's risk management and internal control systems
- Reviews the effectiveness of risk management processes, ensuring that appropriate action is being taken to manage the principal risks

Group risk summary
A quarterly consolidated analysis of the principal risks and the effectiveness of their mitigation is reviewed by the RMAC

Divisional management
- Responsible for risk management and internal control systems within their division
- Provides support and challenge on their businesses' assessment of risk and the adequacy of mitigations

Group functions
- Act as subject matter experts on each of the principal risks and provide independent support and challenge on the assessment and management of risks

Divisional risk summary
A quarterly consolidated analysis of the business risk registers is reviewed by divisional management

Principal risk summary
A quarterly consolidated analysis of each principal risk as assessed within the business risk registers is reviewed by Group functions

Business unit management
- Responsible for risk management and internal control systems within their business unit
- Maintain risk registers that include all principal risks identified by the Board and any further risks deemed significant by each business

Business risk register

Gross risk level
The pre-mitigation risk size considering the potential financial impact and the likelihood of occurring

Key mitigations
Key mitigations are documented and their effectiveness assessed

Net risk level
The post-mitigation risk size, taking into account the effectiveness of key mitigations

Remedial action
Where mitigation is not effective or the net risk level is still deemed to be too high further action is agreed and implemented

Performance indicators
Performance against a number of measures is monitored. This provides an indication of how well risks are managed

Assurance activity – Activity by various parties (including internal audit) that provides assurance as to the effectiveness of the risk management and internal control systems

Principal risks and uncertainties

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.

On behalf of the Board, the RMAC identifies the risks that it considers most likely, without effective mitigation, to have an impact on the Group and its strategic priorities. If emerging risks are identified in between these annual reviews, these are incorporated immediately into the risk management process. There has been no change to the Group's principal risks this year: these are set out below, together with a summary of the actions taken to mitigate each risk.

Risk | **Mitigations** | **Current ranking and movement since 2014**

Contract delivery

The Group has several hundred live contracts at any point in time and the risks to which the Group is exposed are dependent on the nature of the work, the location, the duration and the legal form of the contract. If these risks are not managed effectively, the Group will suffer contract losses, delays and potential reputational damage.

Relevant strategic priorities:

- Achieve top quartile performance and efficiency
- Provide sector-leading customer experience

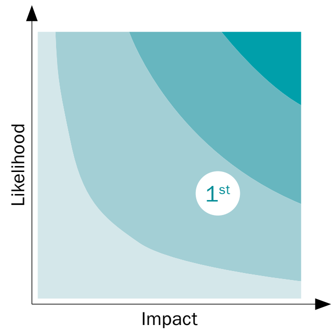
Mitigations

Contracts in progress are controlled and managed through the Group's operating structure and procedures. This includes regular monthly contract reviews of contract-to-date financial performance against budget as well as comparing end-life forecast against tender. Project risk registers are also reviewed. In addition, our procurement function manages subcontractor and supplier relationships across contracts.

The monthly reviews are supplemented by a quarterly review process which operates across all divisions of the Group.

Current ranking and movement since 2014

1st (2014: 2nd)



Systems

The efficient operation of the Group is increasingly dependent on the proper operation, performance, security and development of its IT systems. The Group is maintaining legacy systems prior to implementing an ERP system. If implementation is unsuccessful, this will impact the Group's efficiency and profitability.

Relevant strategic priorities:

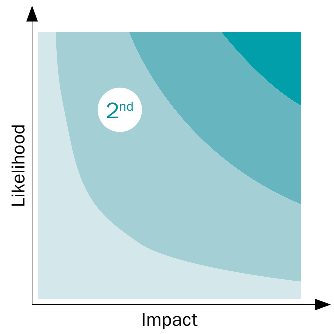
- Achieve top quartile performance and efficiency
- Ensure we have investment in technology and back-office systems

Mitigations

Kier recognises that IT plays a fundamental role in supporting the business. All IT activity is managed by Kier's IT department in partnership with the business and according to agreed service levels. Significant investments and programmes are subject to Board review and approval, such as the development of the new ERP system that will standardise the back-office functions. Kier has contingencies in place to deal with cyber security threats.

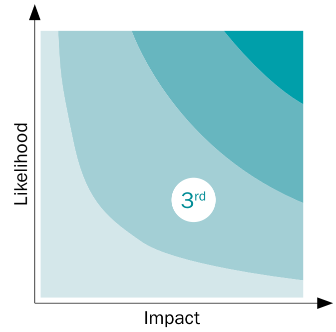
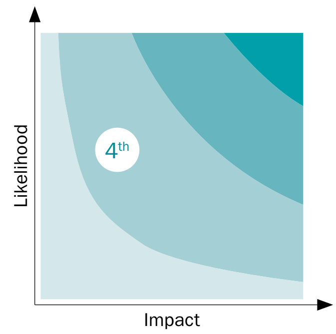
Current ranking and movement since 2014

2nd (2014: 3rd)

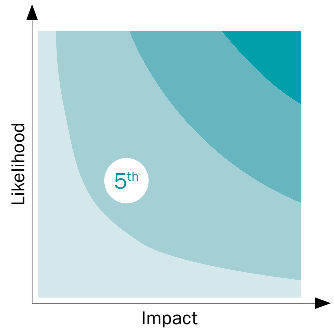
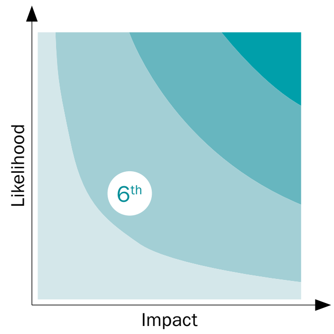


Key: Minor Moderate Major Critical

Principal risks and uncertainties continued

Risk	Mitigations	Current ranking and movement since 2014
Funding The Property and Residential divisions rely on finance provided by the Group and external sources. The Construction and Services divisions rely on Group bonding facilities. Without these, revenue and profit would reduce. Relevant strategic priorities: Accelerate growth to be a top three player in our chosen markets	Cash flow is forecast regularly to provide up-to-date and accurate information on the Group's current cash position and its future requirements. Borrowing facilities have been recently renegotiated and extended. The Group has strong, long-term relationships with the providers of its bonding lines and has an in-house team which monitors headroom and advises on bond terms and conditions. The Group's Investment Committee is responsible for approving capital investment and optimising the allocation of capital.	**3rd** (2014: 4th) 
People The Group depends on members of its senior management team and on a flexible, highly skilled, diverse and well-motivated workforce. As core markets emerge from recession, employee turnover has increased. If the Group does not succeed in attracting, developing and retaining skilled people, as well as understanding and embracing the diversity of those people, it will not be able to grow the business as anticipated. Relevant strategic priorities: Accelerate growth to be a top three player in our chosen markets Attract and retain highly motivated, high-performing teams	The Group monitors staff turnover closely. Pay and conditions are reviewed regularly against the prevailing market to ensure that we remain competitive. Succession planning and staff development are managed at all levels in the Group. The Group has a 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).	**4th** (2014: 1st) 

Key: Minor Moderate Major Critical

Risk	Mitigations	Current ranking and movement since 2014
The market The Group's strategy depends on the planned level of expenditure within both the public and private sectors. Smaller markets will likely result in lower revenue for the Group. Relevant strategic priorities: Accelerate growth to be a top three player in our chosen markets	The Group has a structure to manage and mitigate risk with the following key components: • A wide geographic regional network of offices across the UK well integrated into local communities, the client base and the supply chain; • A high number of framework agreements and partnerships with Government, local authorities and the private sector; • Kier's integrated offering, with Property typically peaking earlier in the economic cycle and Services later, provides a natural mitigation against recession; and • A developing capability to predict market changes, in particular future Government priorities. 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.	**5th** (2014: 8th) 
Tender pricing The work for which Kier tenders is often complex and long-term with significant associated risks. Tender assumptions may be inaccurate or the risks associated with the tender may not be fully understood. If risks are under-priced, contract losses and potential reputational damage will result. If risks are over-priced, order books will suffer. Relevant strategic priorities: Achieve top quartile performance and efficiency Provide sector-leading customer experience	The Group's appetite for very long-term, large, competitively tendered construction contracts is limited. This is influenced by the desire to maintain quality of workload and to manage risk. Tenders for contracts are subject to a governance structure which includes Group-wide standing orders and a gateway process, with approval by the chief executive/finance director, other executive directors or divisional directors, depending upon the value and nature of the contract. Tenders with defined specific risks are reviewed by the Group's Risk Review Committee.	**6th** (2014: 7th) 

Key: Minor Moderate Major Critical

Principal risks and uncertainties continued

Risk	Mitigations	Current ranking and movement since 2014

Compliance

Risk

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 or in the overall management of the breach, to civil and/or criminal penalties as well as reputational damage.

Relevant strategic priorities:

- Operate a safe and sustainable business
- Provide sector-leading customer experience

Mitigations

The Group monitors and responds to legal and regulatory developments in the areas in which it operates. It conducts risk assessments to assess material changes and the policies and procedures it needs to manage them.

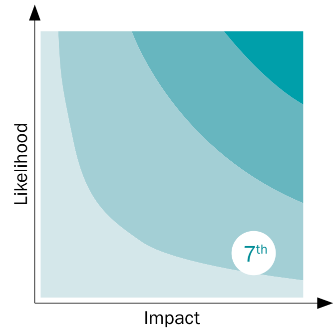
The Group's policies require that all of its subsidiaries, employees, suppliers and subcontractors comply with applicable laws and regulations. The Group updates its policies to ensure that it complies with changes in legislation and regulation. Certain mandatory training is provided on relevant areas of law and regulation.

The Group operates and encourages the use of a whistle-blowing process that enables employees to raise concerns.

Contracts entered into by the Group are subjected to a review process to ensure that contractual risks are identified and, wherever possible, mitigated appropriately.

Current ranking and movement since 2014

7th (2014: 9th)



Change

Risk

Shortly before year end, the Group acquired Mouchel and is currently undertaking its integration through a tightly governed change programme. In addition, the ERP programme has completed its planning and development phase and is expected shortly to move into implementation and roll-out. Unless carefully managed, these programmes risk diverting management attention away from core operations, causing a loss of focus on key market opportunities and control of the existing business.

Relevant strategic priorities:

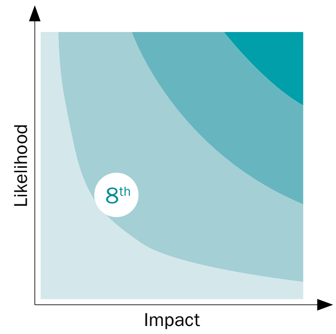
- Achieve top quartile performance and efficiency
- Ensure we have investment in technology and back-office systems

Mitigations

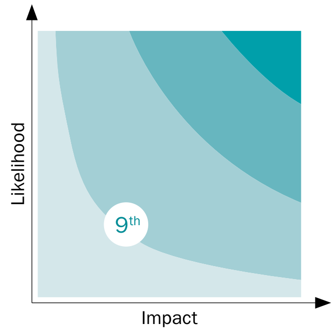
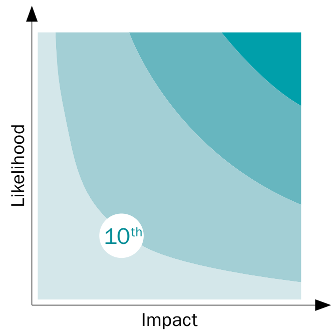
All change programmes are tightly controlled by both a programme steering group and by regular review by the RMAC. The integration programme, in particular, provides a weekly update report that provides details on progress, risks, issues and executive decisions that are required.

Current ranking and movement since 2014

8th (2014: 10th)



Key: Minor Moderate Major Critical

Risk	Mitigations	Current ranking and movement since 2014
Safety The Group's activities are inherently complex and potentially hazardous and require the continuous monitoring and management of health, safety and environmental risks. Failure to manage these risks could result in injury to employees, subcontractors or members of the public or damage to the environment. This could also expose the Group to significant potential liability and reputational damage. Relevant strategic priorities: Operate a safe and sustainable business Accelerate growth to be a top three player in our chosen markets	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 co-ordinating health & safety activities. Compliance with the SHE management system is monitored through a number of tools including audit, leadership tours and inspections. The Group's behavioural change programme is designed to change behaviours at the supervisor and workforce level while the Visible Leadership Programme is encouraging appropriate engagement by the business leadership with the workforce. The SHE audit programme continues to be used as a key method in identifying common areas of non-compliance across the business, helping us drive improvements proactively rather than reactively.	**9th** (2014: 5th) 
Reputation The Group's ability to tender for new business and its relationship with 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. The Group's growth targets are unlikely to be achieved if this risk is not managed. Relevant strategic priorities: Operate a safe and sustainable business Accelerate growth to be a top three player in our chosen markets Provide sector-leading customer experience Attract and retain highly motivated, high-performing teams	With the increasing profile of the Group in both business to business and business to customer markets, the ability to monitor and measure the Group's reputation through client and customer feedback is key. Customer satisfaction monitoring has been implemented across the Group and, with the development of a digital strategy including social media, we are better informed of issues that may arise.	**10th** (2014: 6th) 

Key: Minor Moderate Major Critical

Divisional review
Property

The division provides property development and structured finance.

£126m **+24%**

Revenue[1,3]
(2014: £102m)

£22.7m **+42%**

Underlying operating profit[2,3]
(2014: £16.0m)

£(82.9)m

Average capital[4]
(2014: £(61)m)

81

Employees
(2014: 63)

1 Group and share of joint ventures.
2 Stated before non-underlying items see notes 2 and 4 to the consolidated financial statements. Reported Property operating profit was £22.6m (2014[3]: £13.6m).
3 Restated to reflect the creation of the Residential division, comprising elements previously included within the Property and Construction divisions.
4 Equates to average net debt.

Revenue[1,3] was £126m (2014: £102m), up 24%, generating an underlying operating profit[2,3] of £22.7m (2014: £16.0m). This significant result was achieved with average capital invested of £84m in the Developments business, through a focus on capital efficiency with co-investors and using the cash flow from Kier's other operations. A profit of £1.3m was generated from the sale of a PFI investment in the year. The division achieved a 27% ROCE, exceeding its 15% ROCE target following the significant profit contribution from the Solum Regeneration joint venture renegotiation with Network Rail. However, it is anticipated that ROCE will return to normalised levels in the current financial year. The division's performance continues to be healthy with a development pipeline of opportunities in excess of £1bn.

With a greater focus on Kier's integrated offering, and working with joint venture partners, the specialist skills of the Property division are increasingly in demand by public sector clients who are seeking to maximise the return from their property assets. For example, a Strategic Property Partnership with Staffordshire County Council and the Police and Crime Commissioner ('PCC') for Staffordshire was signed in June 2015. The partnership has created a joint venture company between Kier, the County Council and the PCC called Penda, for a 10-year period with the potential for a five-year extension. The partnership will review property and land schemes including development, disposal, acquisition, construction, asset management and facilities management for a value up to £400m and involve a range of capabilities from across the Group.

Developments

The Development business concentrates predominantly on non–speculative opportunities, with a focus on pre-let and forward sold developments and joint venture arrangements thereby reducing the associated risk and demands on Group cash. During the period, 1.2m sq ft of pre-lets and lettings were secured across a range of sectors, including industrial, retail and leisure, and for a range of prestigious clients including Total E&P, Centrica and CGG. Within the Trade City joint venture with Investec, the first two schemes at Sydenham and Frimley were sold for a combined cash consideration of £20m. In June 2015, construction commenced on two new schemes in Oxford and Bracknell.

In December 2014, the division disposed of its 50% share in the Trade City schemes at Hayes (60,000 sq ft) and Uxbridge (120,000 sq ft) for £14m. In June 2015, the business expanded its industrial offering with the launch of the Logistics City brand focusing on industrial space units up to 150,000 sq ft, complementing the Trade City brand which focuses on owner-occupier needs with units averaging c.10,000 sq ft. New Logistics City schemes are underway in Normanton, Yorkshire, where completion is expected in November 2015, with additional sites secured at Thurrock, Frimley and Andover.

Catterick

The £30m retail and leisure development at Catterick was completed by Kier Property in September 2015 with a sale anticipated as the park becomes established. The scheme was delivered in a joint venture between Kier and Lingfield Securities and built by Kier Construction.

Divisional review
Property continued

Clifton House, Glasgow
Through its joint venture with Amber Infrastructure, Kier has converted two office buildings in the west end of Glasgow into student accommodation comprising a total of 142 en-suite cluster bedrooms and 122 self-contained studio units.

Following Kier's selection by Total E&P to build its new 240,000 sq ft headquarters in Aberdeen, further success in the office sector has been achieved having been selected to develop a new 50,000 sq ft office for CGG, the geoscience company, in Crawley, with construction due to commence in spring 2016. Further office developments are underway in Hammersmith (60,000 sq ft), in joint venture with Investec, 58 Victoria Embankment in London (46,500 sq ft), in which Kier holds a 16% equity stake and is also the development manager and funding partner, and at Sovereign Street in Leeds (940,000 sq ft), of which 60% is pre-let.

The retail, mixed-use and regeneration sectors remain healthy. The £30m retail and leisure development at Catterick is on programme having achieved practical completion in August 2015 and a sale expected by December 2015. The 68,000 sq ft leisure scheme in Walsall, comprising a cinema and food and beverage outlet which have been fully pre-let, has been forward funded and Kier's investment sold with construction due to complete in November 2015. Two new retail schemes have been secured in Wakefield (47,000 sq ft) and Durham (63,000 sq ft) with significant occupier interest on both schemes and construction is set to commence in the coming year.

In the hotel sector, a 67-bedroom Travelodge and retail unit at Doncaster Lakes were sold for a cash consideration of £4m. Construction continued on the forward-sold 222-bed hotel for Motel One in Highbridge, Newcastle with completion on target for late 2015. In April 2015, a new joint venture with Premier Inn Limited, part of the Whitbread Group, was formed to identify hotel development opportunities across the UK.

In October 2014, the 20 acre Reading Gateway site was acquired in partnership with Investec. A planning application for 150 new homes and a hotel and light industrial and trade counter space is expected to be submitted in October 2015.

In December 2014, the £240m Watford Health Campus project reached a significant milestone, with the planning award of the hybrid masterplan and the commencement of highway infrastructure works. The scheme will deliver 375,000 sq ft of mixed-use development to the area as well as 680 new homes.

Reinforcing Kier's relationship with Network Rail, the Solum Regeneration joint venture was extended for an additional 10 years to 2028 focusing on schemes up to £150m with its joint venture partner. Solum has in excess of £500m of mixed-use and regeneration schemes in its portfolio and a significant number of regeneration schemes are underway including in Guildford, Haywards Heath, Redhill, Twickenham and Walthamstow.

Structured finance
The current portfolio of structured property finance projects includes eight schemes, two at preferred bidder stage and the remainder in construction or operation. The committed equity investment stands at £21m (2014: £19m) of which £13m (2014: £11m) has been invested to date. The directors' valuation at a discount rate of 7.5% for PFI investments and 10% for direct let student accommodation investments is £36m (2014: £34m).

The student accommodation joint venture with Amber Infrastructure, set up last year, recently completed 264 rooms in Glasgow ready for the 2015/16 academic year and more student accommodation opportunities are in the pipeline. In the education sector, good progress is being made on the design, build, finance and maintain ('DBFM') of the £25m Ayr Academy scheme in South Ayrshire and the Kilmarnock Academy DBFM scheme where Kier is the preferred bidder, and both of which are being delivered via South West Hub.

Property outlook
The property market remains strong with increased demand for high-quality office space, both in the regions and London, and we are seeing rising demand for industrial space. Our co-investor partners continue to provide support, which is helping to improve our own return on capital, and the focus will remain on predominately non-speculative and pre-let opportunities and the continued recycling of mature assets. The division will continue to generate opportunities for our Construction and Services divisions and assist clients to create value from under-utilised assets.

Divisional review
Residential

Kier Residential, branded Kier Living, includes private house building and affordable mixed tenure housing partnerships.

£257m **+10%**

Revenue[2]
(2014: £233m)

£11.2m **+45%**

Underlying operating profit[1,2]
(2014: £7.7m)

£(262.7)m

Average capital[3]
(2014: £(233)m)

613

Employees
(2014: 348)

In its first full year operating as a new division, the Residential business performed well. The Group's activities are focused on both private house sales and working with local authorities, housing associations and other clients on building mixed tenure affordable housing. Revenues increased to £257m (2014[2]: £233m) with the total number of unit completions increasing by 35% to 2,130 units, generating an increase in underlying operating margin[1,2] to 4.4%.

The strong second-half performance was assisted by the affordable funding programme, as predicted. Underlying operating profit[1] of £11.2m (2014[2]: £7.7m), up 45%, was achieved with a 13% increase in average capital invested, reflecting the ongoing recovery in the sector and the rebalancing of the land bank away from legacy Kier land and into mixed tenure developments.

Mixed tenure

The mixed tenure business achieved more than 1,400 completions in the year, a significant increase on 2014, reflecting the unfulfilled housing demand. In April 2015, the division extended its operations in the north of England through the acquisition of a number of assets and contracts from a regional affordable housing business, Southdale. This business provides the division with a national UK mixed tenure capability.

There was a significant increase in available plots in the Midlands and major development sites set up in Chesterfield, where a large Homes and Communities Agency master planned mixed tenure site is underway, and Kettering, a site developed in conjunction with Buccleuch Trust.

The mixed tenure return on capital is now more than 10% and improving with capital employed increasing to over £40m. The recent budget changes and the extension of Right-to-Buy are expected, in the short term, to lead housing associations and councils to re-assess their development plans. However, these changes are expected to result in greater public and private collaboration, as housing associations and councils seek scale which should be of potential benefit to the Group over the medium term as larger schemes then come to market. The mixed tenure business is well positioned and is more than 70% secured for 2016.

1 Stated before non-underlying items; see notes 2 and 4 to the consolidated financial statements. Reported Residential operating profit was £11.2m (2014[2]: £7.6m).
2 Restated to reflect the creation of the Residential division, comprising elements previously included within the Property and Construction divisions.
3 Equates to average net debt.

Divisional review
Residential continued

Worthing Waterfront

The Worthing Waterfront site consists of 64 one and two-bedroom apartments just metres from the Worthing coastline.

Private

This year saw a significant uplift in private sale completions on Kier owned land, with 706 completions (2014: 601), up 17% on last year. The land bank mix is improving with over 60% of developments on land bought before 2008 and the remainder on newer land which is delivering a 20% return on capital. During the year, the land bank reduced to 3,485 plots (2014: 3,953). Sales were completed at a rate of 0.7 units per trading site per week supported by the Help to Buy scheme, which accounted for approximately 40% of sales. Average selling prices increased to £190k and the business is currently more than 40% secured for 2016.

In March 2015, Kier was awarded a 5* rating in the annual Home Builders Federation customer satisfaction survey, achieving the top score amongst house builders in the UK.

Residential outlook

The UK demand for all forms of housing continues, and the changes to the planning process recently announced aim to accelerate and simplify the decision-making process. The division is well secured for 2016 and we will continue on recycling the land bank to service growth in the mixed tenure business. Mixed tenure is a key part of our housing activities, which, when combined with our experience of housing maintenance, positions Kier well both to assist registered providers to develop their portfolios for both private and affordable housing purposes and to deliver the maintenance requirements thereafter.

Laburnum Lodge, Sandy
The 75-home development at Laburnum Lodge provides a selection of family homes in Sandy, Bedfordshire.

Hawkhead Village, Paisley
Kier's art deco inspired housing development in Paisley, Scotland comprises a selection of three, four and five-bedroom family homes.

Divisional review
Construction

The Construction division comprises the UK building, civil engineering and international businesses which undertake a wide range of building and infrastructure projects.

£1,721m **+15%**

Revenue[1,3,4]
(2014: £1,498m)

£37.7m **+25%**

Underlying operating profit[2,3,4]
(2014: £30.2m)

2.2%

Underlying operating margin[2,3,4]
(2014: 2.0%)

£3.3bn **+32%**

Order book
(2014: £2.5bn)

5,856

Employees
(2014: 3,720)

1 Group and share of joint ventures.
2 Stated before non-underlying items; see notes 2 and 4 to the consolidated financial statements. Reported Construction operating profit from continuing operations was £36.8m (2014[4]: £22.0m).
3 Continuing operations. Prior year restated to reflect the reclassification of the UK mining activities to discontinued operations.
4 Restated to reflect the creation of the Residential division, comprising elements previously included within the Property and Construction divisions.

The Construction division has experienced significant year-on-year organic growth whilst maintaining its selective approach to new work. Revenue[1,3] was up 15% to £1,721m (2014[4]: £1,498m), reflecting significant market and contract growth over the period, particularly within the core regional building business. This resulted in an underlying operating profit[2,3] increase of 25% to £37.7m (2014[4]: £30.2m). Underlying operating margins[2,3] were resilient at 2.2% (2014[4]: 2.0%) and the working capital position has improved.

The order book of secured and probable work, at £3.3bn, is equivalent to 95% of forecast revenue for the 2016 financial year, on increasing volumes.

UK regional building

The regional building business has performed well, with an increasing number of opportunities in the private sector, as well as an expanded profile in Scotland and Wales.

During the year, Kier has secured places on all of its major construction framework bids generating £15bn of opportunity. Kier's experience resulted in a number of new contracts being awarded on the health and education frameworks. On 28 August 2015, we announced that Kier has been appointed the sole contractor to deliver up to £1.5bn of construction work, by leading built environment specialist, Scape Group. The Scape National Minor Works framework covers the UK and runs for a duration of four years, delivering schemes valued between £50,000 and £4m, ranging from refurbishment and redevelopment to new construction projects. Kier was previously on the framework and during the last year delivered 215 projects with a value of £130m, of which 20% was completed by the Services division.

In addition, the Group retained its place on the North West Construction Hub medium-value framework for projects worth between £2m and £9m and all three lots under the £4bn Southern Construction Framework, one of the largest construction frameworks in the UK.

The Group was awarded over £260m worth of contracts under the national framework with the Education Funding Agency and is currently the preferred bidder on a total of 10 schemes, with a combined value of £72m.

As announced in June 2015, the division was awarded more than £200m of contracts under the ProCure21+ health framework. These included being named preferred bidder for a £160m contract to design and build a new critical treatment hospital for Hampshire Hospitals NHS Foundation Trust. The new 45,000 sq m campus within the borough of Basingstoke and Deane will include a new cancer treatment centre and critical pathology laboratories, with work planned to start on site in April 2016. In addition, a £25m contract was awarded to upgrade three hospitals in Boston, Grantham and Lincoln for

Crossrail

As part of joint venture BFK, Kier was awarded a £200m contract for the main construction works of the Crossrail Farringdon station in 2011. The project is set for completion in 2018 and will create one of Britain's busiest train stations.

Camden Council's community building, King's Cross, London

Kier is one of the three delivery partners, appointed by Argent, who are redeveloping a 67 acre site in King's Cross, London. As part of the transformation, a new community services centre was built for Camden Council. The £68m BREEAM Outstanding project includes council offices and a number of public facilities, including a leisure centre with swimming pools, library, customer contact centre and café. Kier is also providing FM services at this site.

United Lincolnshire Hospitals NHS Trust and a £22m contract was awarded to reconfigure and refurbish Dewsbury and District Hospital for the Mid Yorkshire Hospitals. Kier has been appointed by two NHS Trusts as Principal Supply Chain Partner through the ProCure21+ frameworks to deliver a £40m programme of reconfiguration works at Hereford County Hospital, and by Nottinghamshire Healthcare NHS Foundation Trust to deliver the Trust's future estates strategy.

The division has developed its profile in the biotech sector, with new projects including a £70m 14,000m² laboratory for the University of Cambridge on the Cambridge Biomedical Campus and the recent completion of the £23m Hinxton facility for the Wellcome Trust Sanger Institute.

In London, the Group has expanded its presence at the Argent development at King's Cross in London by being appointed preferred bidder on new offices and retail space as part of the overall scheme. In April 2015, Kier was selected as preferred bidder to deliver the £170m first phase of The Ram Quarter, a major flagship regeneration scheme in Wandsworth, London. The Ram Quarter will be delivered in three phases, with a total value of around £600m. Kier will deliver 411,000 sq ft of new build residential and retail space for phase one. Enabling works have commenced with completion scheduled for early 2017. This award recognises Kier's extensive experience in major mixed-use and regeneration projects in the London market.

The division continues to undertake work alongside the Property division, for example, on the Total E&P project to build its new 240,000 sq ft headquarters in Aberdeen and the Ayr Academy as part of the South West Hub.

Infrastructure

The infrastructure business maintained a solid performance, with revenues approaching £350m coming from a range of sectors.

In transport, good progress continues to be made on the £450m Mersey Gateway scheme, having achieved the first milestone ahead of programme. Kier's presence in capital programmes in the UK highways sector continues to grow. Following Kier's success on the Highways Agency £1.15bn five-year collaborative delivery framework announced in November 2014, Kier secured one of Highways England's largest Smart Motorway Programme ('SMP') contracts worth up to £475m, in joint venture, in July 2015. The initial £129.5m contract covers works on the M6, with future works on the M6, M20 and M23. In the year, Kier was also awarded, and commenced, the £33m upgrade to the A30, working for Cornwall Council.

Marriott Hotel, Haiti
Following the 2010 earthquake in Haiti, a new £23m 75-bedroom Marriott Hotel in Port-au-Prince was completed by Kier in December 2014.

Sanger Sequencing Building, Hinxton
Kier's presence in the biotech sector has increased and saw the completion in October 2015 of the Sanger Sequencing Building for the Wellcome Trust Sanger Institute.

Divisional review
Construction continued

United Lincolnshire Hospitals NHS Trust
A £25m contract to upgrade three hospitals in Boston, Grantham and Lincoln for United Lincolnshire Hospitals NHS Trust has been completed as part of the ProCure21+ framework.

In the rail sector, we have formed a new joint venture with Carillion and Eiffage for HS2 and at Crossrail, the western running tunnels project is on programme to complete this year, with all Kier's other tunnelling works now complete across the project. Good progress continues to be made on Kier's Crossrail work at Farringdon station which is set to complete in 2018.

In the energy sector, works have been completed at the Wakefield energy-from-waste plant and are nearing completion at the Plymouth energy-from-waste project. The nuclear sector remains active with new projects at Sellafield, Devonport and Aldermaston, and existing projects at Urenco. At Hinkley, preparation is underway for the next phase of works, which will commence when the final investment decision is announced.

In the water market, the Deephams waste water treatment works project for Thames Water is progressing well.

As announced on 30 June 2015, the UK mining operations in Greenburn, Ayrshire have been prepared for sale and treated as discontinued as at 30 June 2015. Discussions with a potential buyer are progressing well. Following the conclusion of the Group's forward sales contract at the Greenburn mine and the fall in the coal price, the Group has undertaken an impairment review of its UK mining operations. This has resulted in a non-underlying impairment charge to realisable value in the current financial year of £22.9m, with a cash effect of £8m.

International
The international business has secured over £375m of new work in the year. This included major project awards in the Middle East, including a £100m+ prestigious residential development in Dubai, two further contract awards at Dubai Parks & Resorts and a £32m primary infrastructure project for SABIC in Saudi Arabia. Despite lower oil prices, prospects in our key markets of Dubai and Saudi Arabia remain encouraging and our ability to arrange export credit facilities for our clients, supported by UK Export Finance, remains a key differentiator. The business is extending its geographical reach in the region and has a strong order book.

In Hong Kong, work is progressing on our two major rail contracts for MTRC; however, the market remains challenging with project delays being experienced across the entire rail programme and we continue to work with MTRC to resolve these matters.

In the Caribbean, work has been secured in the education and hospitality sectors in Jamaica, although ongoing economic restrictions are reducing expenditure in the public sector. The £23m Marriott hotel in Haiti was completed during the year.

Construction outlook
The Construction division continues to benefit from the UK economic recovery and the higher quality and lower risk of new work, having secured more than £2.5bn in the last year. Its operations are strengthened by an established position on frameworks, a selective approach to new work and an increasing profile in the UK infrastructure market where there is increased Government investment. The order book of £3.3bn is 95% secure for 2016 and margins and cash generation are expected to improve. We will continue to apply our comprehensive pre-construction review and risk management process and endeavour to create a blend of projects utilising our building and infrastructure capabilities in the UK and internationally.

Divisional review
Services

The Services division comprises capabilities in highways maintenance (both local authority and strategic highways), utilities, housing maintenance, facilities management and environmental services. The recently acquired activities of Mouchel's consulting and local authority business processing operations, recently renamed Kier Business Services, are also included.

£1,247m **+13%**

Revenue[1]
(2014: £1,104m)

£58.0m **+9%**

Underlying operating profit[2]
(2014: £53.3m)

4.7%

Underlying operating profit margin[2]
(2014: 4.8%)

£6.0bn **+62%**

Order book
(2014: £3.7bn)

17,021

Employees
(2014: 10,813)

Services revenue[1] was up 13% to £1.2bn (2014: £1.1bn) reflecting the awards of a £200m four-year extension of the highways services contract with Northamptonshire County Council and more than £700m of awards as part of the AMP6 water cycle. Following the acquisition of Mouchel in early June, a three-week contribution from Mouchel's businesses has been included.

Underlying operating profit[2] was £58.0m (2014: £53.3m), up 9%. Underlying operating margins[2] remained in line with management's expectations at 4.7%, reflecting the high volume of bidding costs incurred on the successful AMP tenders in the first half of the financial year and the impact of a significant reduction in market prices for recyclate within the environmental business, which impacted underlying operating profit by £4m.

As announced at the completion of the Mouchel acquisition, it is anticipated that the transaction will deliver pre-tax cost savings of approximately £4m in the financial year ending 30 June 2016 and £10m in the financial year ending 30 June 2017 and thereafter.

The order book at 30 June 2015 of £6.0bn (30 June 2014: £3.7bn) provides good visibility of future work, having secured over £0.8bn of new contracts during the year. More than 90% of targeted revenue for 2016 was secured at 30 June 2015. The order book does not include contract extensions, which, if included, would add a further £2.2bn to the £6.0bn total.

Highways maintenance
The highways business continued to perform well, benefiting from the Government's continued focus on infrastructure. Following the acquisition of Mouchel, Kier is now the sector leader in a growing UK highways maintenance and management market covering both the local authority and strategic highways sectors of the UK highways market, where Government spend has increased and will continue to do so.

Overseas, the DownerMouchel joint venture continues to perform well and additional contracts in the Australian highways market and new opportunities in New Zealand are being evaluated.

In the UK, total annual spend on highways is £13bn, of which approximately £7bn relates to maintenance, providing an opportunity for the Group to extend its presence in this market. This spend is further underpinned by Highways England's £17bn five-year investment in the strategic road network. The local authority highways market is using funds made available by the new £575m Challenge Fund, set up by central Government, to help repair and maintain local infrastructure from 2016 and improve overall asset management.

1 Group and share of joint ventures, including three weeks of Mouchel trading in 2015.
2 Includes three weeks of Mouchel trading in 2015, stated before non-underlying items; see notes 2 and 4 to the consolidated financial statements. Reported Services operating profit was £39.3m (2014: £32.6m).

Divisional review
Services continued

In Kier's local authority highways business, a £200m four-year extension of the Northamptonshire County Council highways services contract, in joint venture, was confirmed. In addition, the Lincolnshire and East Sussex contracts were extended with an estimated value of £37m and £15m respectively. Discussions are ongoing with Surrey County Council to develop a more strategic approach to their maintenance requirements, as well as a one-year extension with a value of approximately £50m.

Utilities

The utilities business had a good year, marking the transition between the AMP5 and AMP6 water cycles. On the back of £700m of new contract awards for Anglian Water, Bournemouth, Bristol, Canal River Trust and Thames Water during the AMP6 bidding cycle and extensions with Scotia Gas Network ('SGN') and South West Water, Kier is now one of the top three participants in the UK regulated water sector.

During the period, the business undertook four mobilisations in the water sector: one for Thames Water and three for Anglian Water, which have been completed successfully. As part of these, work has focused on cultural transformation of the alliances, more efficient processes and an improved customer experience.

In the energy sector, there have been significant opportunities particularly in the gas sector and there are increased opportunities in the environmental protection market. With the growth in the utilities sector, availability of skills remains under pressure and Kier has created its own utilities skills academy to respond to this demand.

The gas and telecoms sectors of the utilities market remain particularly attractive with opportunities under discussion with OpenReach and SGN.

Mouchel Consulting

Mouchel Consulting operates within the highways design, management and technology sector with operations in both the UK and the Middle East. Since 30 June 2015, Mouchel Consulting has secured one of the five major regional traffic modelling contracts with Highways England and, supporting the Government's northern powerhouse devolution agenda, has been awarded a £1.4m project to assess the feasibility of a new TransPennine link between Sheffield and Manchester. Building on its track record in the Middle East highways sector, a four-year £17m supervision contract has been secured for a highways maintenance contract in Abu Dhabi.

Environmental
Mouchel Consulting provides a range of services across a project lifecycle including policy development, planning and design and performance monitoring principally in the transport, environmental, property and water sectors.

Housing maintenance

The business experienced a good first half of the year; however, trading was more subdued in the second half as is typical around an election. Following the award of the four-year £140m repairs and maintenance contract with Genesis Housing Association in September 2014, this was successfully mobilised. Other contract awards in the year included the £26m four-year roofing contract for Sheffield City Council and the five-year £6m planned maintenance contract for Richmondshire District Council in North Yorkshire. In addition, the business is supporting the £25m ProCure21+ regional minor works contract being undertaken through Kier Construction. New opportunities are under discussion with Metropolitan Housing and following a change in strategic approach from the client, the £9m Circle repairs contract was exited enabling the Group to focus on the planned works and gas compliance contracts for that client.

This business continues to develop new opportunities in the East and West Midlands, the North West and East Anglia. Opportunities are also arising from targeting frameworks and places have been secured on 24 frameworks covering works for 150 clients, including the Greater London Authority RE:NEW framework. With the recent Government affordable housing and rent announcements, it is anticipated that the market for registered providers will change, with likely consolidation providing access to larger stock portfolios and the need for increased outsourced support.

Facilities management

To better define its offer in a competitive market, the facilities management ('FM') business focuses on providing a broad FM and asset management proposition to clients. This breadth of delivery is in line with market trends and has resulted in contracts being signed with Staffordshire County Council and the Police and Crime Commissioner for Staffordshire.

Thames Water

Thames Water is a client using a range of Kier services. During this year, Kier was awarded the £1bn Thames Water infrastructure alliance contract, in joint venture with Clancy Docwra.

Divisional review
Services continued

Highways

The Mouchel acquisition extends Kier's market share of the highways and, more broadly, the transport market. The Strategic Highways business is one of Highways England's key suppliers whilst the Consulting business provides capabilities in the fields of development and transport planning, design and management, intelligent transport services including tolling and enforcement, and maintenance and operations.

There have been a number of new awards in the year, including a five-year £22.5m contract with the Royal Opera House and the provision of a four-year £4.8m contract for engineering services to University College London, built by Kier Construction. In the year, the business also joined two national public sector frameworks: the hard FM framework for Crown Commercial Services and the soft FM services framework for national Procurement Services Wales.

The market for FM services both in the public and private sectors looks encouraging and, with clients appearing to prefer integrated self-delivered solutions, Kier is well placed to make further progress.

Kier Business Services ('KBS')

The newly acquired operations of Mouchel provide a range of business process outsourcing and property management services to the local authority market, as well as to the police, health and education sectors. Kier has a prominent position with local authorities across its operations and further opportunities exist to extend its services to clients via Kier Business Services ('KBS'). KBS remains focused on the provision of bundled services to assist local authorities to address their budgetary challenges. Key clients of KBS are exploring the breadth of services now available through Kier and discussions on further outsourcing with current customers are ongoing.

Other

During August, the Bristol City Council contract in our Environmental business mutually terminated within the overall fair value provisions arising at the time of the May Gurney acquisition. Elsewhere, the performance of the environmental business remains challenging but stable.

The sale of Fleet & Passenger Services was completed on 1 July 2015 for £17.9m. Proceeds from the sale were used to improve Kier's cash position and, where appropriate, to fund growth opportunities in line with Kier's strategy.

Services outlook

Following the acquisition of Mouchel, the Group's highways capability has been extended and accelerated. Our enhanced capabilities within the highways market, together with our Group infrastructure capabilities, positions us well for future investment in the transport sector. The increased focus of our utilities business on regulated sectors such as telecoms and power provides new opportunities for further growth in the business. In the local authority market, budgetary challenges continue to create a need for a new approach to managing assets and how services are delivered leading to the outsourcing of more complex, asset focused contracts. Our strong relationships with local authorities provide a robust foundation on which to grow and utilise the breadth of skills we have across the Group. The division has a £6.0bn order book with potential extensions adding a further £3.3bn and is 90% secured for 2016.

Kier Business Services
Kier Business Services, formerly a Mouchel company, provides a range of business process outsourcing and property management services to the local authority market as well as to the police, health and education sectors.

Royal Opera House
Kier provides hard and soft FM services for the Royal Opera House at its iconic site in Covent Garden, in addition to two other locations across the UK.

Financial Review

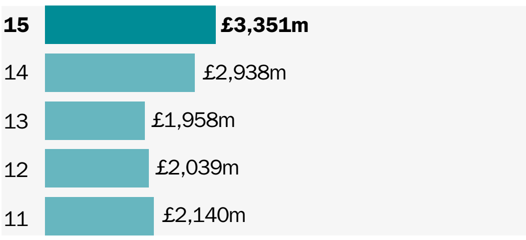
A strong profit performance across all divisions with a capital structure and forward order book positioning the Group for future growth.

Accounting policies and segmental reporting

The Group's annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRSs'). There have been no significant changes to the accounting policies adopted by the Group during the year ended 30 June 2015.

As previously disclosed, the Group has revised its segmental reporting this year. The Group's segmental reporting and related comparators have been revised to highlight the contribution from the Residential division, Kier Living. This additional disclosure highlights the Group's growth aspirations in the mixed tenure housing market in particular.

Revenue[1,4]



Underlying financial performance

Revenue[1,4], including share of joint ventures, has increased 14% to £3,351m (2014: £2,938m) reflecting strong organic growth across all divisions within the Group. The acquisition of Mouchel on 8 June 2015 had a minimal impact on the overall Group revenue for the period, with like-for-like revenue increasing 12%.

Revenue[1] from the Group's Property division of £126m represented a 24%[5] increase from the prior year and average capital invested was £83m (2014[5]: £61m). There is an increasingly robust external market and this has contributed to a strong pipeline of future development, in excess of £1.0bn. The Group's portfolio remains predominantly non-speculative in nature centred on the commercial, retail and business park sectors.

The Residential division, which includes private housing, mixed tenure housing and contracted residential projects also saw strong growth in the period with revenues increasing 10% to £257m (2014[5]: £233m). This turnover was highly second half weighted with 66% of unit volumes reported in the latter period.

The Construction division which includes UK Regional Building, UK Infrastructure and international construction saw revenues[1,4] increase 15% to £1,721m (2014[5]: £1,498m) with a significant rebound in the UK regional building market being the main driver for this growth.

Within the Services division, the Group saw volumes[1] increase to £1,247m (2014: £1,104m), growth of 13%. Excluding the impact of the acquisition of Mouchel like-for-like organic growth was 8%. The Services division benefited materially from contract awards in the first half of the year on the AMP6 water maintenance cycle with £535m of work won to be delivered over the next five years.

Underlying operating profit[2,4], including share of joint venture income of £103.7m (2014: £87.3m), was 19% higher than the prior year reflecting the strong trading performance of all of the Group's divisions and the improving UK trading environment.

The results of the Property division highlight the benefits of our ongoing non-speculative investment strategy with underlying operating profits[2] of £22.7m (2014[5]: £16.0m) being 42% higher than in 2014. The majority of the income, 59%, was generated outside of the London market where the Group is benefiting from a recovery in the regional commercial development and letting market. This reflects a ROCE of 27.4% (2014[5]: 26.2%) with the increasing use of joint venture arrangements and associated non-recourse debt enhancing the efficiency of the Group's capital usage. The Group is maintaining its commitments to its 15% ROCE hurdle rate in the medium term.

The Residential division returns have increased 45% to £11.2m (2014[5]: £7.7m). As the Group trades out of legacy land held at nil margins and also generates increased scale within its mixed tenure business, margins have increased to a blended 4.4% (2014: 3.3%) across the open market and mixed tenure businesses.

The Construction division delivered an underlying operating profit[2,4] of £37.7m (2014[5]: £30.2m), a 25% increase on the prior year and an overall underlying operating margin[2,4] on Group revenue of 2.2% (2014[5]: 2.0%). The Group has continued its highly selective approach to tendering and bidding for new work and its prudent approach to margin recognition; as such this represents a robust return reflective of a strong delivery capability and a recovering market, particularly in UK Regional Building.

Bev Dew
Finance Director

£3.3bn
Group revenue[4]

£85.9m
Underlying profit before tax[2,4]

£9.3bn
Construction and Services order book

Financial performance

Continuing operations	**2015 Year ended 30 June**	2014 Year ended[4] 30 June	Change %	Like for like %
Revenue[1]	**£3.4bn**	£2.9bn	+14	+12
Group revenue	**£3.3bn**	£2.9bn	+13	+11
Operating profit – Underlying[2]	**£103.7m**	£87.3m	+19	+16
– Reported	**£60.9m**	£34.3m	+78	+79
Profit before tax – Underlying[2]	**£85.9m**	£73.7m	+17	
– Reported	**£39.5m**	£15.4m	+156	
Earnings per share[3] – Underlying	**96.0p**	87.5p	+10	
– Basic	**40.2p**	16.2p	+148	
Dividend per share[3]	**55.2p**	57.6p	-4	

1 Group and share of joint ventures.
2 Stated before non-underlying items; see note 4 to the consolidated financial statements.
3 Restated to reflect the impact of the bonus element of the rights issue associated with the Mouchel transaction (see note 24 to the consolidated financial statements).
4 Continuing operations. Prior year comparatives restated to reflect the reclassification of the UK mining activities as discontinued operations.
5 Restated to reflect the creation of the Residential division, comprising elements previously included within the Property and Construction divisions.

The Services division generated £58.0m of underlying operating profit[2] in the year, a 9% increase from the prior year with a three week contribution from Mouchel. The contribution from the acquired Mouchel business was immaterial in the period. The overall underlying operating margin[2] of 4.7% (2014: 4.8%) was down 0.1% on the prior period. This reduction reflects the high volume of bidding costs incurred on the successful AMP tenders in the first half of the financial year and the impact of a significant reduction in market prices for recyclate within the Group's environmental business. The recyclate issue adversely impacted operating profit by £4.0m. The highways and utilities businesses performed well and in line with management expectations as did the FM and housing maintenance businesses.

Further information relating to the operating performance of each of the divisions is contained within the divisional reviews.

Total corporate costs of £25.9m have increased by £6.0m from the prior year. Whilst the IAS19R pension charge has decreased to £6.8m (2014: £13.6m) due to the cessation of the final salary pension scheme, the unrecovered Group overheads increased to £19.1m (2014: £6.3m) as the Group continues to mature and expand, and additional investment in risk management, IT and core commercial and financial controls has been made during the year.

Corporate costs

	2015 £m	2014 £m
Unrecovered overhead	**(19.1)**	(6.3)
IAS19R pension charge	**(6.8)**	(13.6)
	(25.9)	(19.9)

Underlying net finance costs[1] – continuing operations

	2015 £m	2014 £m
Net interest receivable/(payable) on operating cash balances	**0.7**	(1.5)
Interest payable and fees on committed borrowings	**(13.7)**	(7.6)
Interest payable on finance leases	**(2.6)**	(2.7)
Net interest on net defined benefit obligations	**(2.2)**	(1.8)
	(17.8)	(13.6)

The net underlying finance cost[1] for the Group of £17.8m is £4.2m higher than in the prior year with additional costs associated with higher average borrowings driven by the second half weighting of the Residential division and the US private debt placement made in November 2014.

The tax charge for the Group of £16.9m in the period represents an effective rate of 19.7%. This is a discount of 1.05% against the UK standard corporation rate for the year (20.75%) and is driven by the accounting for profit on the disposal of PFI investments and a minor re-appraisal of prior period taxation provisions.

Overall underlying EPS[2] from continuing operations of 96.0 pence (2014: 87.5 pence) represented a 10% increase from last year. The number of shares in issue increased from 55.3m last year end to 95.2m at 30 June 2015, the increase driven by scrip dividend (0.1m shares), share ownership schemes (0.2m shares) and the Mouchel transaction (39.6m shares).

Corporate activity

During the year, the business acquired the share capital of MBRL Limited, the parent company of the Mouchel Group. This transaction completed on 8 June 2015 for a net consideration of £260.6m. In addition to the purchase price, the Kier Group also acquired the existing pension liability of £74.9m at 30 June 2015.

The purchase was funded by a 5-for-7 rights issue priced at 34.3% discount to the theoretical ex-rights price ('TERP'), where 39.6m shares were offered to existing holders raising £340.2m. This increased the total number of shares in issue at 30 June to 95,159,247 and the weighted average number of shares in issue during the year to 70.7m.

We are undertaking a comprehensive review of the assets, liabilities and contracts acquired. A preliminary fair value adjustment of £15.1m has been recorded in the 2015 financial year and is broadly in line with management's expectations. This adjustment will be finalised in the 2016 financial year. In accordance with the acquisition accounting guidelines in IFRS3, £301.3m of goodwill and £141.0m of intangible contract rights with associated non-cash deferred tax liability of £28.2m were recognised on the acquisition of the Mouchel Group.

During the year, the activities of the Fleet & Passenger Services business ('F&PS') were put under review and the business offered for sale in the second half of the financial year. Completion was achieved on 1 July 2015, for a loss on disposal of £2.2m. Disposal costs of £3.4m have been shown within non-underlying items in the current year.

Discontinued operations

The Group classified its UK mining operations based in Greenburn, Ayrshire as a discontinued operation in the period. The fall in the coal price from US$80-US$85 per tonne in 2014 to US$55-US$60 per tonne in 2015, the conclusion of our forward sale agreement with our existing clients and the Group's continuing focus on strategic alignment of operations and delivery of a 15% return on capital has resulted in the Group seeking external buyers for the operation. In light of these factors, the Group has re-assessed the carrying value of its UK mining operations and this has resulted in a non-cash and non-underlying impairment charge of £22.9m being recognised in 2015. The trading loss for the year of £2.9m (2014: £0.6m loss) has been separately disclosed within discontinued operations. The 2015/16 cash outflow in respect of this disposal is estimated at £8m.

1 Stated before non-underlying items; see note 4 to the consolidated financial statements.
2 Stated before non-underlying items; see note 4 to the consolidated financial statements.
Continuing operations. Prior year comparatives restated to reflect the reclassification of the UK mining activities as discontinued operations. Restated for the bonus element of the rights issue associated with the Mouchel transaction; see notes 11 and 24 to the consolidated financial statements.

Non-underlying items

The Group incurred £69.3m (2014: £58.3m) of non-underlying costs in the year, of which £46.4m (2014: £58.3m) related to continuing operations. £22.9m (2014: nil) of this charge relates to discontinued UK mining operations as described above.

Non-underlying items from continuing operations comprise the amortisation of intangible contract rights of £11.2m (2014: £10.8m), unwinding of discount in respect of deferred consideration and fair value adjustments made on acquisition of £3.6m (2014: £5.3m), and other non-underlying items of £31.6m (2014: £42.2m) before the associated tax credit of £6.9m (2014: £9.8m).

There were four main components to other non-underlying items referred to above:

- £13.5m costs associated with the issue of share capital for the acquisition of the Mouchel business and the due diligence and adviser costs arising from the transaction;
- £8.4m of costs driven by post acquisition restructuring and transformation of the acquired Mouchel business;
- £6.3m of costs associated with the closure to future accrual of the Kier Group Pension Scheme. £5.2m of this represents a non-cash adjustment to actuarial assumptions; and
- £3.4m of costs associated with disposal of the F&PS business on 1 July 2015. It is anticipated that a gain on disposal of £1.2m will be accounted for the 2016 financial year in respect of this transaction.

Other non-underlying items

	2015 £m	2014 £m
Costs relating to acquisition of Mouchel	(13.5)	–
Restructuring and transformation costs following the acquisition of Mouchel	(8.4)	–
Costs associated with cessation of the Kier Group final salary pension scheme	(6.3)	–
Costs relating to the disposal of Fleet & Passenger Services	(3.4)	–
Costs relating to acquisition of May Gurney	–	(8.1)
Restructuring and transformation costs following the acquisition of May Gurney	–	(29.6)
Construction Workers Compensation Scheme costs	–	(4.5)
Total non-underlying items relating to continuing operations	**(31.6)**	(42.2)
Discontinued – UK mining	(22.9)	–
Total non-underlying items	**(54.5)**	(42.2)

The cash outflow this year in respect of these non-underlying items was £18.8m.

Cash and liquidity

The business delivered a strong cash performance during the year and is reporting overall net debt of £140.8m (2014: £122.8m) excluding finance leases. This is below the long-term balanced position for the Group's capital structure which anticipates year-end net debt of between £150m and £170m.

The cash performance of the Group has six main drivers:

- The impact of corporate activity, in particular the acquisition of Mouchel;
- Operating profits generated by the Group;
- Working capital movements within operational business units;
- Investments in the Property and Residential divisions and Group IT projects;
- Payments in respect of dividends, interest, tax and pensions; and
- The cash impact of non-underlying items.

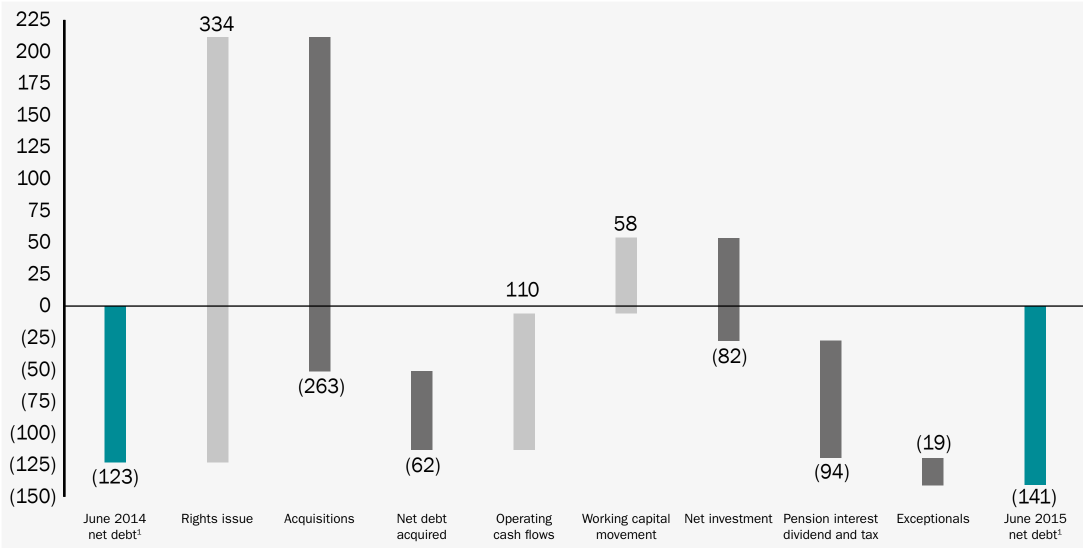
The acquisition of Mouchel was completed on 8 June 2015. £340.2m of capital was raised which was used to acquire the share capital of MRBL Limited for £260.6m and also resulted in the £61.8m of Mouchel debt being incorporated onto the Group balance sheet.

Operating cash of £110.2m was generated, representing a robust performance across the Group and 106.2% of operating profit over the same period.

Working capital cash inflow of £57.8m was generated in the year. Of this £21.0m represents the working capital inflow from the Mouchel Group from their monthly low, when acquired, to a more representative month-end net debt position of £41.0m. The Group position was achieved despite the increasing cash requirements of the Infrastructure business in the UK and the international construction business where the target cost nature of the contracts means that costs are reimbursed once expended rather than being pre-funded.

The Group invested £82.3m which included £12.2m in the year directly into its Residential and Property divisions and a further £32.1m (net of dividends) via joint ventures into opportunities which allow the Group to maximise ROCE. In addition to the above, £17.8m was invested into property, plant and equipment, and a further £22.6m was invested in intangible assets driven by the Group's commitment to back-office improvement and process harmonisation.

Cash performance (£m)



Tax payments of £3.5m, dividends of £41.4m, pension payments of £33.9m and interest of £13.9m were made during the year. It should be noted that the pension cash impact included a one-off cash payment of £15.2m in respect of a pension scheme that had been previously provided.

Finally, the cash impact of the items noted as non-underlying items was a net outflow of £18.8m. These include £14.4m in respect of the pre and post-acquisition costs for Mouchel, £1.1m in respect of cash costs of the closure to future accrual of the pension scheme and £3.3m in respect of the disposal of the F&PS business which concluded on 1 July 2015.

The Group's net debt balance included £146.1m (2014: £112.4m) of cash held in joint contracting agreements and other cash arrangements including project bank accounts which are not available to the Group until the contracts near completion, an increase of 30%. The liquid cash position is also affected by seasonal, monthly and contract specific stage completion and payment patterns. Excluding balances within the acquired Mouchel business this balance has broadly remained unchanged year-on-year.

Order books

The Group's forward workload has increased from £6.2bn in June 2014 to £9.3bn in June 2015, a 50% increase on the prior year. Of this increase, £2.7bn represents the acquired order book from Mouchel, excluding potential contract extensions.

At 30 June	**2015 £bn**	2014 £bn
Construction	**3.3**	2.5
Services	**6.0**	3.7
	9.3	6.2

The Group's disclosed order book balance includes contractual, committed orders and preferred bidder contracts within its Construction division, and for the Services division also includes a prudent assessment of the Group's long-term service contracts, again excluding potential contract extensions.

The Construction order book has increased by 32% over the year to £3.3bn as the UK building and overseas businesses in particular have seen very strong performance, notably with framework clients in the UK and led by UK Export Finance in the Middle East.

The Services order book increased by 62% to £6.0bn and included the benefit of the £2.7bn Mouchel order book. Within the Services division, a strong first half performance led by the AMP6 water framework wins was followed by a temporary hiatus immediately pre and post-election. As a consequence the order book, excluding the impact of Mouchel, has declined 11%.

Pensions

The Group's balance sheet includes aggregate deficits net of deferred tax of £122.9m (2014: £47.9m) for the Group's pension schemes. The Group recorded net actuarial losses on those schemes of £27.2m (2014: £23.6m). The Group's principal pension scheme is the Kier Group Pension Scheme. The Group acquired four pension schemes as part of the Mouchel transaction. In addition, the Group also participates in two smaller schemes acquired with May Gurney.

In February 2015, the Group closed the defined benefit section of the Kier Group Pension Scheme to future accrual (as described in the non-underlying items section above). All of the Group's defined benefit schemes are now closed to future accrual. There was good asset growth in the year to £919.4m (2014: £837.1m), with most of the increase arising in the first half of the year. Liabilities however increased by £94.4m to £994.6m (2014: £900.2m).

[1] Excludes finance lease obligations.

This was largely driven by the reduction in the long-term corporate bond yield from 4.4% in 2014 to 3.9% in 2015. These combine to give an overall post-tax deficit of £60.2m (2014: £50.5m).

On 8 June 2015 the Group acquired the Mouchel pension schemes as part of the acquisition. The technical assumptions have been aligned to those adopted by the Kier Group Pension Scheme. The Mouchel related pension schemes had post-tax deficit of £59.9m at 30 June 2015.

The assets and liabilities of one of the May Gurney schemes, TransLinc, is associated with the F&PS business and accordingly the defined benefit asset net of deferred tax of £2.1m is included within assets held for sale at 30 June 2015 and subsequently disposed of as part of the sale on 1 July 2015. The net deficit on the remaining May Gurney pension scheme was £2.8m.

Note 8 to the financial statements includes a sensitivity analysis which highlights the effect of changes to key assumptions behind the valuation of the pension schemes. A net underlying operating pension charge of £6.8m (2014: £13.6m) has been recorded in the income statement. The Group has committed to cash contributions under deficit recovery plans for all of its pension schemes, totalling £26m in the next financial year.

Treasury facilities and policies

Facility type	Facility amount (£m)	Expiry
Revolving credit facility	**380**	2020
Funding for lending term loan	**30**	2017
US private placement	**183**	2019, 2021 2022, 2024
Overdrafts	**45**	n/a
Asset finance	**103**	n/a
Total	**741**	n/a

The Group revised its banking facilities as part of a review of its capital structure in conjunction with the Mouchel acquisition, combining a number of existing facilities under a single revolving credit facility ('RCF') with five lending banks to the value of £380m.

In November 2014, the Group undertook a private debt placement in the US which raised approximately £120.1m of fixed-rate debt, maturing between 7 and 10 years. US dollar-denominated notes were hedged with cross-currency SWAPs to mitigate the foreign exchange rate risk.

Overall debt facilities have increased to £637.7m (2014: £377.7m) following the transactions noted above, with a weighted average maturity date of 2021.

The Group has £71.7m of finance lease obligations on the balance sheet at year end of which £31.1m relates to the F&PS business (included in assets held for resale) which was disposed of on 1 July 2015.

Financial instruments

The Group's financial instruments comprise cash and liquid investments. The Group, largely through its PFI and property joint ventures, enters into derivative transactions (principally interest rate swaps) to manage interest rate risks arising from its operations and its sources of finance. The US dollar denominated loan notes have been hedged with fixed cross-currency swaps at inception to mitigate the foreign exchange risk. The Group does not enter into speculative transactions.

There are minor foreign currency risks arising from our operations. The Group has a limited number of international operations in different currencies. Currency exposure to international 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 currency fluctuations, forward exchange contracts are completed to buy and sell foreign currency.

Dividend policy

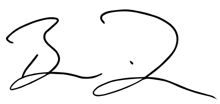
The Board is proposing a final dividend of 36 pence on the increased 95.2m shares in issue at 30 June 2015. The calculation presented for dividend per share ('DPS') is the technical disclosure that assumes the shares were in issue for the full 12 month period. The shares in issue increased from 55.6m to 95.2m for the final three week period in this financial year. The Board is therefore recommending a dividend which recognises the increased investment by shareholders but also that there was only a three week period to generate returns to fund the final dividend.

Combined with an interim dividend declared of 24 pence per share for shares in issue at February 2015, the total dividend declared this year is therefore £47.3m (2014: £39.4m), which represents a 20% increase on 2014 and reaffirms our progressive dividend policy. On a statutory basis the dividend of 55.2 pence per share is a 4.2% reduction on the restated 2014 dividend.

Going concern

The Chief Executive's strategic review highlights the activities of the Group and those factors likely to affect its future development, performance and financial position. These statements and assumptions have been carefully considered by the Board in relation to the ability of the Group to operate within its current and foreseeable resources, both financial and operational.

The Group has significant financial resources, committed banking facilities, long-term contracts and long order books. For these reasons, the directors continue to adopt the going concern basis in preparing the Group's financial statements.



Bev Dew
Finance Director

Corporate governance
Chairman's introduction to governance

"As a board, we believe that the Group and the delivery of its strategy should be based on strong governance."

As a board, we believe that the Group and the delivery of its strategy should be based on strong governance. We also believe that good governance is essential to the way in which we operate on a day-to-day basis. A summary of how our governance framework has supported our strategy and operations is set out on page 61.

In this part of the annual report, we describe governance at Kier, the principal areas of activity of the Board and its committees throughout the year and how we have complied with the UK Corporate Governance Code (September 2012 edition) ('the Code'), demonstrating our commitment to applying high standards of corporate governance.

In this introduction, I set out a summary of how we have applied the main principles of the Code.

Compliance with the Code

During the 2015 financial year, the Company continued to apply the main principles of the Code and complied with the provisions of the Code, except in certain areas. Further details are set out on page 63.

We also monitored the changes to the Code which were made in the September 2014 edition and are expressed to apply to financial years commencing on or after 1 October 2014, in preparation for our 2016 financial year. A full version of the Code can be found on the Financial Reporting Council's website: http://www.frc.org.uk.

Leadership and effectiveness

The Board is collectively responsible for the long-term success of the Group, for developing and delivering its strategy and for establishing a framework of prudent and effective controls to assess and manage risk effectively. Kier continues to be led by a board with a range of skills and experience which will challenge, motivate and support the business. Please see page 67 for an overview of the governance and management structure of the Group.

As we identified in our 2014 annual report, Board succession planning was one of the key priorities in 2015. During the course of the year, there have been a number of changes to the composition of the Board. On 1 September 2014, Kirsty Bashforth joined the Board as a non-executive director. On 1 January 2015, Bev Dew joined as the new Finance Director. In March 2015, we announced that Nigel Brook (Executive Director – Construction and Infrastructure Services), Nigel Turner (Executive Director – Developments and Property Services) and Claudio Veritiero (Group Strategy and Corporate Development Director) had been appointed to the Board and that Steve Bowcott, the former Chief Operating Officer, would stand down from the Board. It was particularly pleasing that the three new directors were internal promotions and we have been delighted with their performance since appointment.

We believe that these appointments will enable the Board to more effectively oversee progress against the Group's strategy: two of the new executive directors are actively involved in the day-to-day delivery of the Group's strategy through their respective businesses. The appointment of Claudio Veritiero to the Board, as Group Strategy and Corporate Development Director, demonstrates the strength of our commitment to deliver Vision 2020.

The skills and experience of the executive directors are balanced by those of the non-executive directors, who bring a depth and breadth of experience in senior management roles, finance, governance and risk management, among other matters. Please see pages 64 to 66 (inclusive) for the directors' biographies.

Since the appointments of Nigel, Nigel and Claudio, the Board has not complied with provision B.1.2 of the Code, which requires at least half of the Board (excluding the Chairman) to be independent non-executive directors. We were therefore pleased to announce the appointment of Justin Atkinson as an independent non-executive director with effect from 1 October 2015. Justin's experience of the construction industry, both in the UK and internationally, complements the skills and

How governance has supported our strategy during 2015

Strategic priority	The Board's governance role
Operate a safe and sustainable business	The Board considers health and safety at every Board meeting, with both the Chief Executive and the Group Safety, Health and Environment Director ('the Group SHE Director') providing reports on the Group's current safety, health and environment ('SHE') performance. The Safety, Health and Environment Committee considers the Group's strategic SHE priorities and assists management to ensure that SHE risks are appropriately managed throughout the Group. Please see pages 82 and 83 for the safety, health and environment Committee Report. The Board oversaw the launch of the Group's strategy for a sustainable business in March 2015.
Accelerate growth to be a top three player in our chosen markets	The Board reviews and approves material acquisitions. For example, during the course of the year, the Board approved the acquisition of Mouchel, which has significantly accelerated the delivery of the Group's Vision 2020 strategy. During the course of the year, the Group Strategy and Corporate Development Director (Claudio Veritiero) was appointed to the Board and, at each Board meeting, provides an update on progress against the Group's strategy.
Achieve top quartile performance and efficiency	At each Board meeting, detailed reports are produced by the executive directors with operational responsibilities as to the performance of the businesses for which they are responsible. In addition, further detailed discussions as to individual businesses' performance and efficiency are held at meetings of the Executive Committee, which comprises the executive directors and the Company Secretary. Please see the divisional reviews set out on pages 38 to 53 (inclusive) for further information.
Provide sector-leading customer experience	The Board reports produced by the executive directors with operational responsibilities also provide details of feedback (both positive and negative) from customers, together with examples of significant contract awards and disputes. These reports are discussed by the Board, with the non-executive directors providing constructive challenge to the executive directors and mangement whch is designed to drive a sector-leading experience for the Group's customers. Operational performance and issues affecting or relevant to customer relationships are also discussed at meetings of the Executive Committee.
Attract and retain highly motivated, high-performing teams	At each Board meeting, the executive directors report on significant changes in personnel, any new senior appointments and steps being taken to ensure that teams remain highly motivated and high-performing. The Board also supported the appointment of a new Group HR Director during the course of the year, who will oversee the Group's framework for attracting and retaining talent throughout its operations. During the course of the year, the Nomination Committee also discussed in detail the succession plan relating to senior management below the Board and made three internal promotions to the Board. Please see pages 74 and 75 for the Nomination Committee Report.
Ensure we have investment in technology and back-office systems	During the course of the year, a significant focus for the Board has been overseeing the planned introduction of a new ERP system. Regular updates on progress against the project plan are provided to the Board and the Risk Management and Audit Committee ('the RMAC') receives detailed status reports at each committee meeting.

Corporate governance
Chairman's introduction to governance continued

experience of the other non-executive directors. Justin will be a member of all four of the Board's committees and will be present at the 2015 AGM to answer any questions about his new role.

More details of our compliance with the leadership and effectiveness provisions of the Code can be found on pages 67 to 72 (inclusive).

Accountability
As a board, we understand our responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects in this annual report. We also understand the need to maintain sound risk management and internal control systems. We are aware of the changes to the Code, which will apply to Kier's 2016 financial year. In particular, we note the requirement to make a statement as to the Group's longer-term viability in next year's report and accounts and the Board and the RMAC are already working together to ensure that we can comply with this requirement next year.

During the course of the year, the RMAC has assisted the Board to discharge its obligations with respect to the management of risk. A summary of the matters considered by the RMAC during the course of the year is set out in the Risk Management and Audit Committee Report contained on pages 76 to 81 (inclusive).

Further information relating to our compliance with the accountability provisions of the Code are set out on page 72.

Remuneration
Having received 76.24% of the votes in favour of our Remuneration Report at the 2013 AGM, we were pleased to receive 98.87% of votes in favour of our remuneration policy at the 2014 AGM; 88.52% of votes in favour of our Remuneration Report also represented a significant improvement on the number of votes in favour of the report at the 2013 AGM. We recognise, however, that we need to continue to engage with shareholders on remuneration matters to ensure that we understand their views.

The remuneration of the four executive directors who were appointed during the year is within the policy which was approved by shareholders last year. In addition, the terms agreed with Steve Bowcott on his departure from the Board are within the terms of the policy on payments for loss of office. Further information on the remuneration of the newly-appointed executive directors and a summary of the terms agreed with Steve Bowcott are set out in the Remuneration Report on pages 84 to 106 (inclusive).

The policy remains unchanged for the 2016 financial year; as a result, we will not be seeking approval for any changes to our existing remuneration policy at the 2015 AGM.

Relations with shareholders
Members of the Board have met a number of our key stakeholders during the year to understand their views on matters of significance to them. For example, our new appointments to the Board have, during their first few months on the Board, met a number of shareholders and analysts. As Chairman, I welcome the opportunity to meet shareholders and my discussions with them during the course of the year on a variety of governance and strategy matters have helped to ensure that I can keep the Board informed about their issues and concerns. Further details on our engagement with shareholders are set out on page 73.

Phil White
Chairman of the Board
16 September 2015

Compliance with the Code

Application of the main principles of the Code

During the 2015 financial year, the Company continued to apply the main principles of the Code, as follows:

A. Leadership

A1 The Board's role
The Board met formally 10 times during the year. There is a clear schedule of matters reserved for the Board, together with delegated authorities throughout the Group.

A2 A clear division of responsibilities
The roles of the Chairman and Chief Executive are clearly defined. Phil White, the Chairman, is responsible for the leadership and effectiveness of the Board. Haydn Mursell, the Chief Executive, is responsible for leading the day-to-day management of the Group within the strategy set by the Board.

A3 Role of the Chairman
The Chairman sets the agendas for meetings, manages the meeting timetable (in conjunction with the Company Secretary) and facilitates open and constructive dialogue during the meetings.

A4 Role of the non-executive directors
The Chairman promotes an open and constructive environment in the boardroom and actively invites the non-executive directors' views. The non-executive directors provide objective, rigorous and constructive challenge to management and meet regularly in the absence of the executive directors.

B. Effectiveness

B1 The Board's composition
The Nomination Committee is responsible for regularly reviewing the composition of the Board. In making appointments to the Board, the Nomination Committee considers the wide range of skills, knowledge and experience required in order to maintain an effective board.

B2 Board appointments
The appointment of new directors to the Board is led by the Nomination Committee. Further details of the activities of the Nomination Committee can be found on pages 74 and 75.

B3 Time commitments
On appointment, directors are notified of the time commitment expected from them which, in practice, goes beyond that set out in the letter of appointment. External directorships, which may impact existing time commitments, must be agreed with the Chairman.

B4 Training and development
All directors receive an induction on joining the Board and training is made available to members of the Board in accordance with their requirements.

B5 Provision of information and support
The Chairman, in conjunction with the Company Secretary, ensures that all Board members receive accurate and timely information.

B6 Board and committee performance evaluation
During the 2015 financial year, the Board undertook an evaluation of its performance during the year. Details of the evaluation can be found on pages 71 and 72.

B7 Re-election of the directors
All directors were subject to shareholder election or re-election at the 2014 AGM, as will be the case at the 2015 AGM.

C. Accountability

C1 Financial and business reporting
The Board has established arrangements to ensure that reports and other information published by the Group are fair, balanced and understandable. The Strategic Report is set out on pages 1 to 59 (inclusive) and this provides information about the performance of the Group, the business model, strategy and the risks and uncertainties relating to the Group's future prospects.

C2 Risk management and internal control systems
The Board sets out the Group's risk appetite and annually reviews the effectiveness of the Group's risk management and internal control systems. The activities of the RMAC, which assists the Board with its responsibilities in relation to the management of risk, are summarised on pages 76 to 81 (inclusive).

C3 Role and responsibilities of the Risk Management and Audit Committee
The Board has delegated a number of responsibilities to the RMAC, which is responsible for overseeing the Group's financial reporting processes, internal control and risk management framework and the work undertaken by the external auditor. The chairman of the RMAC provides regular updates to the Board.

D. Remuneration

D1 Levels and elements of remuneration
The Remuneration Committee sets levels of remuneration appropriately so as to attract, retain and motivate the Board, but also structures remuneration so as to link it to both corporate and individual performance, thereby aligning management's interests with those of shareholders.

D2 Development of remuneration policy and packages
Details of the work of the Remuneration Committee and the approach to setting the remuneration policy can be found in the Remuneration Report on pages 84 to 106 (inclusive).

E. Relations with shareholders

E1 Shareholder engagement and dialogue
The Board takes an active role in engaging with shareholders. The Board particularly values opportunities to meet with shareholders and the Chairman ensures that the Board is kept informed of shareholder views.

E2 Constructive use of the AGM
The AGM provides the Board with an important opportunity to meet with shareholders, who are invited to meet the Board following the formal business of the meeting.

Compliance with the Code provisions

An explanation of the Company's non-compliance with certain Code provisions during the 2015 financial year is as follows:

Code provision	Explanation
B.1.2 – at least half of the Board (excluding the Chairman) to comprise independent non-executive directors.	Since the appointment of the three new executive directors in March 2015, the Board has not complied with this requirement. However, the appointment of Justin Atkinson as an independent non-executive director with effect from 1 October 2015 means that, with effect from that date, the Board will comply with B.1.2.
B.2.3 – non-executive directors to be appointed for a specified term.	The non-executive directors' letters of appointment each contain notice periods of one month (either way) and their appointments are subject to annual re-election and to statutory provisions relating to the removal of directors, but do not contain a specified term. The Company's current policy is that all directors, including the non-executive directors, will be subject to annual re-election at the Company's AGM. These arrangements are designed to provide the Company with the flexibility to maintain an appropriate range of skills and experience on the Board.
C.3.5 – internal auditor effectiveness.	During the year, the Group changed internal auditor from PwC to KPMG. For the RMAC to be able to assess its effectiveness as internal auditor, KPMG needs to have completed a sufficient number of internal audits. The next formal assessment of the internal auditor will, therefore, take place in the 2016 financial year. See the Risk Management and Audit Committee Report on pages 76 to 81 (inclusive) for further details.
E.1.1 – the Senior Independent Director should attend sufficient meetings with a range of major shareholders.	During the year, the Senior Independent Director has met with a limited number of major shareholders. The Chairman and other members of the Board have, however, met a number of major shareholders during the year to discuss a variety of matters, so as to develop a balanced understanding of their issues and concerns. The Board intends to review the number of meetings between the Senior Independent Director and shareholders during the 2016 financial year.

Corporate governance
Board of directors

Phil White CBE
Chairman
Age 65

Date appointed to Board/ as Chairman:
July 2006/January 2008

Tenure on Board:
9 years, 2 months

Independent: Yes

Committee memberships:
- Chair of the Nomination Committee
- Remuneration Committee

Relevant skills and experience:
- A chartered accountant with substantial operational and commercial experience, particularly within the transport and contracting sectors
- Significant level of listed company board experience gained in executive and non-executive roles
- Formerly chief executive of National Express Group plc from 1997 to 2006
- Experienced in mergers and acquisitions and strategy development

Principal external appointments:
- Chairman, Lookers
- Chairman, The Unite Group
- Non-Executive Director, Stagecoach Group
- Non-Executive Director, Vp

Haydn Mursell
Chief Executive
Age 44

Date appointed to Board/ as Chief Executive:
November 2010/July 2014

Tenure on Board:
4 years, 10 months

Independent: No

Committee memberships:
None

Relevant skills and experience:
- A chartered accountant, having trained and qualified at KPMG
- Significant sector experience through previous senior finance roles at Balfour Beatty and Bovis Lend Lease
- Operational leadership experience gained through previous responsibility for the Property division
- Detailed knowledge of the Group gained through previous role as finance director, in particular
- Strong track record in mergers and acquisitions, both at Kier and in previous organisations

Principal external appointments:
- None

Bev Dew
Finance Director
Age 44

Date appointed to Board:
January 2015

Tenure on Board:
8 months

Independent: No

Committee memberships:
None

Relevant skills and experience:
- A chartered accountant, having trained and qualified at Coopers & Lybrand
- Over 18 years' experience in the construction industry, with previous senior finance roles at Balfour Beatty, Lendlease, Redrow and Invensys Rail
- Significant experience in finance and capital structures
- Strong track record in cost control, cash flow management and pension scheme risk management
- Recent experience of ERP and other management information systems implementation programmes

Principal external appointments:
- None

Nigel Brook
Executive Director – Construction and Infrastructure Services
Age 57

Date appointed to Board:
March 2015

Tenure on Board:
6 months

Independent: No

Committee memberships:
None

Relevant skills and experience:
- A chartered quantity surveyor and a member of the Royal Institution of Chartered Surveyors
- Over 35 years' experience in the construction sector, having previously held roles at AMEC, Ballast and Miller Construction
- Significant experience in management and delivery of large and complex projects throughout the UK
- Strong track record of customer service and operational performance improvement
- Strong track record on health and safety matters

Principal external appointments:
- None

Nigel Turner
Executive Director – Developments and Property Services
Age 50

Date appointed to Board:
March 2015

Tenure on Board:
6 months

Independent: No

Committee memberships:
None

Relevant skills and experience:
- A chartered surveyor and a member of the Royal Institution of Chartered Surveyors
- Detailed knowledge of the property developments sector, in particular
- Significant commercial and transactional experience, having negotiated a large number of investments and other projects in his career
- Detailed knowledge of the Group's business units through their interaction with the Property business
- Experienced in dealing with lenders, joint venture partners and other key stakeholders

Principal external appointments:
- None

Claudio Veritiero
Executive Director – Group Strategy and Corporate Development Director
Age 41

Date appointed to Board:
March 2015

Tenure on Board:
6 months

Independent: No

Committee memberships:
None

Relevant skills and experience:
- Significant experience of a wide variety of corporate transactions during early part of career in investment banking at Rothschild
- Previous listed company board experience as an executive director of Speedy Hire
- Operational leadership experience within Kier through previous role as managing director of the Services division
- Strong record in mergers and acquisitions, both at Kier and in previous roles

Principal external appointments:
- None

Richard Bailey
Senior Independent Director
Age 63

Date appointed to Board:
October 2010

Tenure on Board:
4 years, 11 months

Independent: Yes

Committee memberships:
- Chair of the Risk Management and Audit Committee
- Nomination Committee
- Remuneration Committee

Relevant skills and experience:
- A chartered accountant, having trained and qualified at PwC
- Significant experience of public and private corporate transactions and financings through his role as a partner with Rothschild
- In-depth knowledge of financial matters, gained through advising clients in a variety of sectors, including construction, property, house building and financial services
- Detailed knowledge of best practice in risk management and internal control

Principal external appointments:
- Partner, N M Rothschild & Sons Ltd

Kirsty Bashforth
Non-Executive Director
Age 45

Date appointed to Board:
September 2014

Tenure on Board:
1 year

Independent: Yes

Committee memberships:
- Nomination Committee
- Remuneration Committee
- Risk Management and Audit Committee
- Safety, Health and Environment Committee

Relevant skills and experience:
- Significant experience in organisational effectiveness, principally through her previous role as Group Head of Organisational Effectiveness at BP
- A wide range of experience in a variety of human resources matters, including diversity and ethical working practices
- Strong track record of driving group-wide development and change programmes
- In-depth commercial, risk management and operational experience through various roles during over 24 years at BP

Principal external appointments:
- Governor at Leeds Beckett University (Finance Staffing & Resources Committee, Governor Champion Equality & Diversity)
- A number of the steering committees of the Two Percent Club and the Balanced Business Forum

Board of directors continued

Amanda Mellor
Non-Executive Director
Age 51

Date appointed to Board:
December 2011

Tenure on Board:
3 years, 9 months

Independent: Yes

Committee memberships:
- Chair of the Remuneration Committee
- Nomination Committee
- Risk Management and Audit Committee
- Safety, Health and Environment Committee

Independent: Yes

Relevant skills and experience:
- A Fellow of the Institute of Chartered Secretaries and Administrators
- A strong track record in governance, through her role as the Group Secretary and Head of Corporate Governance at Marks & Spencer
- Detailed knowledge in the design and implementation of employee and executive remuneration
- Considerable experience in investor relations and communications, through previous roles at Marks & Spencer and Arcadia Group
- Practical experience of risk management and internal control best practice

Principal external appointments:
- Group Secretary and Head of Corporate Governance, Marks & Spencer
- Member of the Council and Remuneration Committee, University of Leeds
- Visiting Professor in Business and Professional Ethics, University of Leeds

Nick Winser CBE
Non-Executive Director
Age 55

Date appointed to Board:
March 2009

Tenure on Board:
6 years, 6 months

Independent: Yes

Committee memberships:
- Chair of the Safety, Health and Environment Committee
- Nomination Committee
- Remuneration Committee
- Risk Management and Audit Committee

Independent: Yes

Relevant skills and experience:
- A chartered engineer and a Fellow of the Royal Academy of Engineering
- Significant experience of the energy sector, principally through his role as a member of the board of directors of National Grid from 2003 to 2014
- Experienced in dealings with regulators and Government
- A strong track record on health and safety and risk management through his role with National Grid

Principal external appointments:
- Chairman of the Energy Systems Catapult
- Vice President of the Institution of Engineering and Technology
- Chairman of CIGRÉ UK
- Chairman of the Power Academy
- Trustee of the MS Society
- Director of Way Ahead Support Services charity

Hugh Raven
General Counsel and Company Secretary
Age 43

Date appointed:
April 2010

Tenure:
5 years, 4 months

Independent: n/a

Committee memberships: n/a

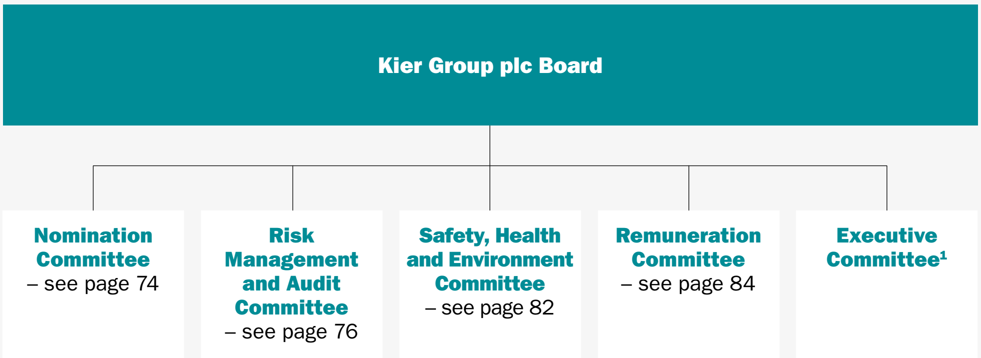
Relevant skills and experience:
- A solicitor, having qualified with Linklaters LLP, and a former partner of Eversheds LLP
- Significant experience of a wide variety of legal and regulatory issues, having advised a number of public and private companies
- Particular expertise in large corporate transactions, including capital raisings (debt and equity) and mergers and acquisitions
- Expertise in corporate governance matters and best practice

Principal external appointments:
- None

Corporate governance
Leadership and effectiveness

Governance structure

An outline of Kier's governance structure is as follows:



[1] Comprises the executive directors, with the Company Secretary as secretary.

The Board

The Board is responsible for the effective leadership of the Group. The Group's management and governance framework, which is summarised above, has been implemented to support the Group's long-term growth objectives.

The diverse range of skills and leadership experience of the non-executive directors enables them to scrutinise performance, assess the Group's risk management and control processes, provide constructive challenge and support the executive directors.

There are typically 10 scheduled Board meetings during the year; additional meetings are arranged if required. The Board committee meetings are typically scheduled around the regular Board meetings.

Biographical details of each of the directors are set out on pages 64 to 66 (inclusive).

Board composition

As at 30 June 2015, the Board comprised the Chairman, five executive directors and four other non-executive directors.

During the course of the year, the following appointments were made to the Board:

- Kirsty Bashforth (Non-Executive Director), with effect from 1 September 2014;
- Bev Dew (Finance Director), with effect from 1 January 2015;
- Nigel Brook (Executive Director – Construction and Infrastructure Services), with effect from 6 March 2015;
- Nigel Turner (Executive Director – Developments and Property Services), with effect from 6 March 2015; and
- Claudio Veritiero (Group Strategy and Corporate Development Director), with effect from 6 March 2015.

Steve Bowcott, the former Chief Operating Officer, stood down from the Board with effect from 27 April 2015.

On 30 July 2015, we announced that Justin Atkinson had been appointed as a non-executive director with effect from 1 October 2015.

Corporate governance
Leadership and effectiveness continued

Division of responsibilities
A clear division of responsibilities is important for the effective working of the Board. The Chairman and the Chief Executive work together to provide effective and complementary stewardship of the Board and the Company. The roles of the Chairman, the Chief Executive and the Senior Independent Director are clearly defined, as summarised below:

Role	Description
Chairman Phil White	• Responsible for the Board's effectiveness • Sets the agenda for Board meetings, ensuring that the directors receive accurate, timely and clear information • Facilitates the effective contribution of the non-executive directors • Responsible for effective communication with shareholders
Chief Executive Haydn Mursell	• Responsible for the operational management of the Group • Accountable to the Board for the implementation of the Group's strategy • Meets regularly with other members of senior management, focusing on a variety of matters, including strategy, significant operational issues, succession planning and other material issues facing the Group
Senior Independent Director Richard Bailey	• Acts as chairman of the Board if the Chairman is conflicted • Acts as a conduit to the Board for the communication of shareholder concerns if other channels of communication are not appropriate • Ensures that the Chairman is provided with effective feedback on his performance

The Company Secretary acts as the secretary to the Board and each of its committees. The Chairman meets the Senior Independent Director and the Company Secretary to discuss Board and governance matters. In addition, the Chairman holds meetings with the non-executive directors without the executive directors being present. The Senior Independent Director also holds meetings with the non-executive directors without the Chairman being present at least once a year.

Re-election of directors
In accordance with the requirements of the Code, each of the current directors will offer himself/herself for election or re-election (as the case may be) at the AGM on 12 November 2015. As it is the first AGM since their appointments, resolutions will also be proposed to elect Kirsty Bashforth, Bev Dew, Nigel Brook, Nigel Turner, Claudio Veritiero and Justin Atkinson as directors.

Following the evaluation of the Board's performance during the year, it is confirmed that the performance of each of the non-executive directors continues to be effective and that they are each considered to demonstrate appropriate commitment to the role.

Time commitment
Directors are made aware at the time of appointment of the time commitment required to discharge their Board and committee responsibilities effectively. The terms and conditions of appointment for the executive directors and non-executive directors will be available at the 2015 AGM and can, at other times, be inspected at the Company's registered office.

All executive directors may serve on another board of directors, provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company and that they obtain the agreement of the Chairman to the appointment before acceptance. The major commitments of the executive and non-executive directors are outlined in their biographies on pages 64 to 66 (inclusive). The Nomination Committee remains satisfied that all non-executive directors have sufficient time to meet their commitments to the Company and that the Chairman's other commitments do not interfere with the performance of his day-to-day duties to the Company.

Board committees
The Board has delegated certain responsibilities to its committees. The terms of reference for each committee are reviewed annually and are available on the Company's website at http://www.kier.co.uk/corporategovernance. The principal activities of each of these committees during the year are set out in their respective reports on pages 74 to 106 (inclusive). Executive directors also attend meetings of the Board committees when required by the chair of the relevant committee to do so. Details of the attendance at the Board committees meetings during the year are set out in the table on page 69.

The current membership of each Board committee is as follows:

	Risk Management and Audit	Remuneration	Nomination	Safety, Health and Environment
Richard Bailey	✓•	✓	✓	–
Kirsty Bashforth	✓	✓	✓	✓
Amanda Mellor	✓	✓•	✓	✓
Phil White	–	✓	✓•	–
Nick Winser	✓	✓	✓	✓•

• Denotes the chair of the relevant committee.

Board meetings

Details of the number of meetings of the Board and its committees held during the year, and attendance of directors at those meetings, are set out below. Meetings are normally held in Tempsford Hall, in London or at one of the Group's regional locations or sites. For example, the October 2014 Board meeting was held in Dubai, enabling the Board also to conduct visits to the Group's sites in the region.

Key activities

The duties of, and those decisions which can only be made by, the Board are clearly defined in the schedule of matters reserved for the Board.

The matters requiring Board approval include, amongst others:

- The Group's strategic plans;
- Mergers, acquisitions and disposals of a material size and nature;
- Material changes to the Group's structure and capital;
- The payment of dividends; and
- The approval of material Group policies.

The schedule of matters reserved for the Board are available on the Company's website at http://www.kier.co.uk/corporategovernance.

Board and committee meeting attendance

The number of Board and committee meetings attended by each director during the 2015 financial year is as follows:

	Board (10)	Risk Management and Audit Committee (5)	Remuneration Committee (3)	Nomination Committee (3)	Safety, Health and Environment Committee (5)
Richard Bailey	10	5	3	3	–
Kirsty Bashforth[1]	9	5	3	3	5
Steve Bowcott[2]	6	–	–	–	–
Nigel Brook[3]	4	–	–	–	–
Bev Dew[4]	5	–	–	–	–
Amanda Mellor[5]	10	5	3	3	4
Haydn Mursell	10	–	–	–	–
Nigel Turner[3]	4	–	–	–	–
Claudio Veritiero[3]	4	–	–	–	–
Phil White	10	–	3	3	–
Nick Winser	10	5	3	3	5

1 Kirsty Bashforth was appointed to the Board with effect from 1 September 2014 and attended all Board and committee meetings since that date.
2 Steve Bowcott retired from the Board with effect from 27 April 2015 and attended all Board meetings up to (and including) the February 2015 meeting.
3 Nigel Brook, Nigel Turner and Claudio Veritiero were appointed to the Board with effect from 6 March 2015 and attended all Board meetings since that date.
4 Bev Dew was appointed to the Board with effect from 1 January 2015 and attended all Board meetings since that date.
5 Amanda Mellor was unable to attend the March 2015 Safety, Health and Environment Committee meeting due to jury service. Amanda was provided with the papers and gave her comments in advance of the meeting.

Corporate governance
Leadership and effectiveness continued

The key issues considered at Board meetings during 2015 are summarised in the table below:

Issue	Frequency [1,2]	How addressed
Review of safety, financial and operational performance	1	The Chief Executive's report on safety, financial and operational performance, tenders and order book, investor relations and material human resources issues
	1	The Finance Director's report on financial performance, working capital management, forecasts and share price performance
	1	Reports from the executive directors with operational responsibilities as to their businesses' safety, financial and operational performance
	2	Review and approval of latest forecasts and budgets
Leadership, governance and strategy	1	The Group Strategy and Corporate Development Director's monthly report on progress against Vision 2020
	1	Review of directors' share dealings
	2	Review and approval of the Mouchel acquisition
	2	Appointment of new directors and succession planning
	2	Feedback from meetings of the Board's committees
	2	Evaluation of the Board and its committees
	2	Review and authorisation of any conflicts of interest
Accountability, control and risk management	2	Review and approval of 2014 annual report and 2015 interim results. Approval of final dividend for 2014 and interim dividend for 2015
	2	Review and approval of trading updates
	2	Consideration of reports from the chair of the RMAC on internal control and risk management
	2	Consideration of risk management procedures and key risks and uncertainties facing the Group
Relations with shareholders	2	Consideration of matters relating to the 2014 AGM
	2	Consideration of feedback from investors received following release of results or during routine meetings with Board members

1 Standing agenda item for all Board meetings.
2 Item tabled on a periodic basis.

Information and support
The Board is provided with regular and timely information on the financial and operational performance of the businesses within the Group, together with reports on health and safety, strategic and risk management matters and other relevant issues.

The Company Secretary is the secretary to the Board and each of its committees. Prior to each Board or committee meeting, the Company Secretary ensures that the papers are made available to the directors in sufficient time in advance of the meeting. These papers are made available on a secure electronic portal, enabling information to be provided in a timely and secure manner.

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.

Induction and training
Directors are provided with a comprehensive information pack on joining the Company and are advised of their legal and other duties and obligations as a director of a listed company. In addition, all new directors receive an induction on their appointment, covering such matters as the operational activities of the Group, the role of the Board and the Company's corporate governance procedures.

Kirsty Bashforth joined the Board with effect from 1 September 2014. Kirsty's induction included:

- A briefing on the responsibilities of a director of a listed company;
- A briefing on Kier's culture, strategy, policies and processes;
- Briefings from senior management and members of the business;

- Briefings from external advisers, including the auditor, the corporate brokers and the financial PR advisers; and
- Site visits to certain of the Group's projects.

The four other directors who joined the Board during the course of the year have also received similar inductions, tailored to reflect the fact that they were appointed as executive directors and were either internal promotions or had previous executive experience of working within a contracting business.

Directors are encouraged to update their knowledge and skills as they consider appropriate and training is available upon request via the Company Secretary. The Board is also briefed by the Company's external advisers, where appropriate, on changes to legislation, regulation or market practice, as well as receiving briefings from representatives of the business units and the functions throughout the year.

"Kier's induction programme gave me a full understanding of the role and responsibilities of a non-executive director. The programme was comprehensive and tailored to suit my need to understand the Group's operations, business and governance structure."

Kirsty Bashforth

Performance evaluation

In the 2014 annual report, we identified the Board's priorities for 2015, following the 2014 performance evaluation. The Board has made good progress against each of these priorities, as summarised below:

2014 feedback	Progress
Focus on senior management succession planning	• Appointment of three internal promotions to the Board in March 2015 • Nomination Committee discussions relating to the potential future composition of the Board
Set aside sufficient time for strategy	• Appointment of Claudio Veritiero to the Board, as Group Strategy and Corporate Development Director • Updates on progress against Vision 2020 at each Board meeting
Enhance the quality of information provided to the Board	• Significant progress on improving the quality of the Board papers, as confirmed by the 2015 evaluation • Establishment of Board reference documents portal
Review schedule of Board and Board committee meetings to enable the Board to develop its knowledge of the business	• During the course of the year, the schedule was reviewed and discussed in detail and a number of site visits undertaken (both in the UK and overseas) • Members of senior management were invited to attend Board or Board committee meetings to provide briefings on specific matters
Strengthen the resources available to support the Board	• The company secretariat function was reviewed and strengthened during the year • The new Group HR Director was appointed to provide support to the Remuneration and Nomination Committees

In keeping with the Code, the Board typically undertakes an external performance evaluation every three years, with internal evaluations in the intervening years. The most recent external evaluation was carried out in 2014; accordingly, the 2015 evaluation was conducted using internal resources.

The 2015 evaluation was led by the Chairman, with the assistance of the Company Secretary, and was conducted using a questionnaire covering the operation and performance of the Board, its committees and individual directors. Each director was asked to complete and return the questionnaire to the Company Secretary who, in turn, summarised the feedback in a report for discussion by the Board.

A summary of the matters covered by the questionnaire is as follows:

Risk
- Assessment of risk management approach
- Effectiveness of the RMAC.

Relationship management
- Effectiveness of communications with principal stakeholders
- Appropriateness of reaction to events (positive or negative)
- Assessment of quality of communication channels between the Board and senior management.

Corporate governance
Leadership, effectiveness and accountability continued

Board culture
- Board culture, dynamics and conduct
- Quality of debate and decision-making
- Assessment of the opportunity and ability to contribute, individually and collectively.

Board composition
- Board size, composition, skills and experience
- Effectiveness of succession planning
- Effectiveness of the Nomination Committee.

Chairman/Chief Executive
- Assessment of the Chairman's leadership style
- Effectiveness of the Chairman and Chief Executive's working relationship.

Administration
- Quality of information and the timeliness of papers
- Quality of company secretariat support
- Induction on appointment and availability of training.

Meetings
- Schedule of Board and Board committee meetings
- Appropriateness of the Board agenda and time allocation
- Constructive use of the AGM.

So as to be able to conduct a meaningful evaluation of the performance of the Board in light of the changes to the executive director composition which took place in January and March 2015, it was decided that the process would begin towards the end of the financial year. At the date of this annual report, the 'action plan' arising from the feedback remains under discussion by the Board. However, a summary of the principal areas of feedback from the 2015 evaluation, on which the action plan will be based, is as follows:

Strengths
- Improved focus on developing, discussing and implementing strategy, as demonstrated by the appointment of the Group Strategy and Corporate Development Director to the Board
- Strong chairmanship and robust performance of the Board with respect to the Mouchel acquisition
- Effective implementation of the succession plan through the appointment of three internal candidates to the Board in March 2015
- Effective understanding of the views of major shareholders.

Areas of focus for 2016
- Continuing the focus on developing and implementing strategy
- The need to appoint a non-executive director with contracting experience and recent experience as an executive director on a listed company's board of directors. Justin Atkinson has, subsequently, been appointed to the Board with effect from 1 October 2015
- The continued development of the new directors as Board members, rather than as senior members of management below the Board
- The continued focus on succession planning, the operation of the Nomination Committee and the composition of the Board
- The need to continue to review the administration of the Board and its committees to enable effective decision-making.

Accountability
Fair, balanced and understandable
The Board is committed to presenting a fair, balanced and understandable assessment of the Group's position and prospects in its communications with shareholders. The Board has delegated responsibility for ensuring that this annual report is fair, balanced and understandable to the RMAC; details of the steps taken by the RMAC, and the business, to do so are set out in the Risk Management and Audit Committee Report on pages 76 to 81 (inclusive). Following completion of the review process, the Board is of the opinion that the annual report is a fair and balanced representation of the Group's performance during the 2015 financial year and provides the necessary information for shareholders to assess the Group's performance over the period, together with its business model and strategy.

Risk management and internal controls
The Board is responsible for the Group's systems of risk management and internal control. It is also responsible for determining the nature and extent of the significant risks that it is prepared to accept in achieving the Group's strategic objectives. The principal risks and uncertainties associated with the Group are summarised on pages 33 to 37 (inclusive).

The Board has delegated responsibility for reviewing the effectiveness of the Group's systems of internal control, including those established to identify, assess, manage and monitor risk and to provide assurance, to the RMAC so that these matters can receive particular focus and attention but, in so doing, the RMAC acts on behalf of the Board and its activities remain the responsibility of the Board.

Further details of the Group's internal control and risk management systems, including those relating to the financial reporting process, are set out in the Risk Management and Audit Committee Report on pages 76 to 81 (inclusive).

Corporate governance
Relations with shareholders

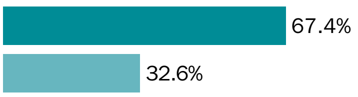
Meetings with investors

In July 2014, we held a capital markets day and announced Vision 2020 for the first time. The presentation provided investors and analysts with the opportunity to meet senior members of management below the Board, each of whom delivered a presentation about their respective businesses.

Also during the course of the year, members of senior management engaged with shareholders and prospective shareholders in relation to the acquisition of Mouchel and the associated rights issue. Whilst such engagement primarily focused on the merits of the acquisition, it also provided senior management with an opportunity to discuss shareholders' views in general about the Group's performance and prospects.

Details of the Company's shareholders by type, geography and concentration at 30 June 2015 are as follows:

Shareholders by type (%)

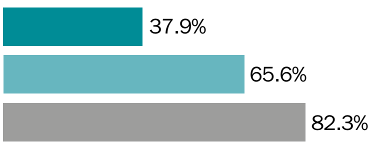


Institutional
Private

Shareholders by geography (%)

UK
Europe
North America
Rest of World

Shareholders by concentration (%)



Percentage of issued share capital held by:
Top 10 shareholders
Top 100 shareholders
Top 30 shareholders

Relations with shareholders

Members of the Board welcome the opportunity to engage with shareholders and to understand their views on matters of importance to them – for example, strategy, governance, remuneration and sustainability.

The Chairman of the Board meets regularly with individual shareholders to obtain their views on a variety of matters (including governance and strategy), as does the chair of the Remuneration Committee in relation to remuneration matters.

During the course of the year, the Company engaged with a range of stakeholders (including shareholders) in relation to its corporate responsibility ('CR') programme. It also liaised with a number of shareholders in relation to environmental, social and governance issues, in particular obtaining their views on its CR strategy and reporting, to ensure that the Group's priorities are aligned with those of its key stakeholders. Further information can be found on pages 28 to 31 (inclusive).

The Company also regularly communicates to and meets investors, investment analysts and brokers, delivering detailed presentations when it releases its annual and interim results and, where appropriate, its interim management statements. These assist the Board to understand the views of key stakeholders about the Group's performance and its strategic objectives.

During the course of the year, we held a capital markets day to announce Vision 2020 and there was also significant engagement with shareholders with respect to the acquisition of Mouchel and its associated rights issue.

Constructive use of the AGM

The Board uses the AGM as an opportunity to communicate directly with shareholders.

All members of the Board attend the Company's AGMs and shareholders are invited to attend, ask questions and meet directors prior to, and after, the formal proceedings. The chairs of the Board committees are present at the meeting to answer questions on the work of their committees.

The results of the voting at the 2014 AGM were:

		For	Against
	Resolution	Percentage of votes cast[1]	Percentage of votes cast
1	Receive annual report and accounts	99.91	0.09
2	Directors' remuneration policy	98.87	1.13
3	Remuneration report	88.52	11.48
4	Declare final dividend	99.99	0.01
5–11	Appointment of directors	88.66–99.63	11.34–0.37
12	Appointment of auditor	98.61	1.39
13	Auditor's remuneration	92.79	7.21
14	Authority to allot shares	99.18	0.82
15	Disapplication of pre-emption rights	99.77	0.23
16	Meetings on 14 days' notice	95.93	4.07

[1] Includes those votes for which discretion was given to the Chairman.

Corporate governance
Nomination Committee Report

Dear shareholder,
I am pleased to present the Nomination Committee Report for 2015.

This report provides a summary of the Committee's work during 2015. As you will be aware, there have been a number of changes to the Board during the course of the year and, as a result, the Committee has been extremely active.

I will be available to answer any questions about the work of the Committee at the AGM on 12 November 2015. There will also be an opportunity to meet the members of the Board who have been appointed during the course of the year.

Role
The role of the Committee includes:

- Regularly reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes;
- Giving full consideration to succession planning for the Board and other senior executives, taking into account the challenges and opportunities facing the Group and the skills and expertise needed on the Board in the future;
- Being responsible for identifying and nominating for the approval of the Board any candidates to fill Board vacancies; and
- Before any appointments made by the Board, evaluating the balance of skills, knowledge, experience and diversity on the Board.

The terms of reference for the Committee can be viewed on the Company's website at http://www.kier.co.uk/corporategovernance.

Composition and meeting attendance
The members of the Committee are:

- Phil White (Chair)
- Richard Bailey
- Kirsty Bashforth
- Amanda Mellor
- Nick Winser

At the invitation of the Committee, any other director or other person may attend meetings of the Committee. The secretary of the Committee is the Company Secretary.

Details of attendance at Committee meetings during the 2015 financial year are set out on page 69.

Principal activities – 2015
A summary of the Committee's principal activities in the 2015 financial year is as follows:

Review of Board composition
During the year, we reviewed the Board's composition to ensure that it had the correct balance of skills, experience and independence in light of the

Group's plans for future growth. We concluded that the Board required greater representation from operational management to support the continued growth of the underlying business.

We therefore decided that, so as to strenghten the link between the operations and the Board, Nigel Brook would be appointed to the Board as Executive Director – Construction and Infrastructure Services, along with Nigel Turner as Executive Director – Developments and Property Services. In addition, and so as to assist the Board to continue to develop and implement its strategy, we appointed Claudio Veritiero to the Board as the Group Strategy and Corporate Development Director.

As a result of these changes, it was agreed that the former Chief Operating Officer, Steve Bowcott, would stand down from the Board with effect from 27 April 2015. I would like to thank Steve for his significant contribution to both the business and the Board.

New non-executive director

As a result of the changes to the executive director representation on the Board, we decided that it would be appropriate to appoint an additional non-executive director, not only to comply with the requirements of the Code with respect to the balance and independence of the Board but also to ensure that the Board, as a whole, has an appropriate range of skills, experience and knowledge to lead the Group in the next stage of its growth.

As a committee, we concluded that the candidates should have an in-depth knowledge of either the construction or services sectors, should have recent and relevant experience as an executive director of a listed company and should be familiar with overseas businesses. We therefore engaged Russell Reynolds Associates ('Russell Reynolds') to assist the Committee to identify potential candidates. A role profile was agreed with Russell Reynolds, which then produced a 'long list' of candidates and, following discussions with the Company, a 'short list'. Interviews were held with members of the short list, before Justin Atkinson, formerly the chief executive of Keller Group plc, was identified as the preferred candidate by the Committee. The Committee is satisfied that Russell Reynolds, in providing its services to the Committee, did not have any connections with the Company.

Each member of the Board and the Company Secretary then met Justin to further assess his skills and experience for the role. Justin also took the opportunity to conduct thorough due diligence on the role and the Company, including meeting a number of our advisers. The process concluded with a formal recommendation from the Committee to the Board and, on 30 July 2015, we were delighted to announce Justin's appointment (effective 1 October 2015).

New director inductions

As disclosed in the 2014 annual report, Kirsty Bashforth joined the Board with effect from 1 September 2014. During the course of the financial year, the Committee successfully oversaw the completion of Kirsty's induction.

The Committee has also overseen the induction of each of the four executive directors who were appointed during the year and will work with Justin Atkinson to ensure that he also receives a full, formal and tailored induction.

Further details of our Board inductions are set out on pages 70 and 71.

Succession planning

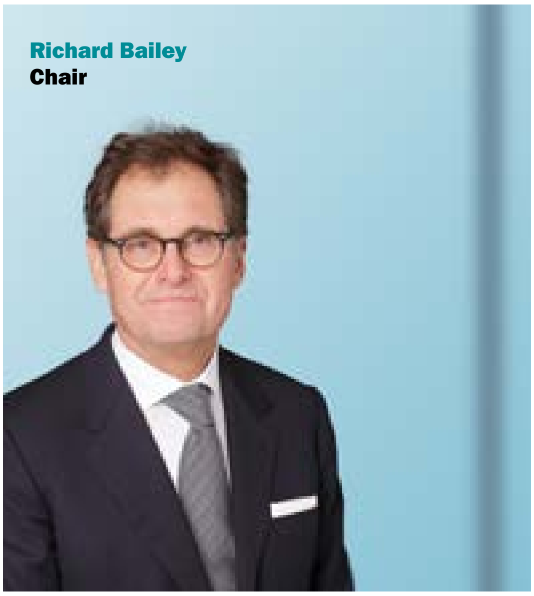
As a committee, we are keen to ensure that a strong pipeline of future senior management has been identified, from which future Board appointments may be made. In particular, our focus will be on ensuring that we have the right mix of skills and experience so that the Board can lead a group which has changed significantly since the acquisitions of May Gurney and Mouchel whilst also overseeing the delivery of Vision 2020. In particular, we will be challenging management to ensure that, immediately below the Board, there is a robust pipeline of potential future Board members.

During the course of the year, the Committee discussed the Group's succession plan for senior management. Each of the three individuals appointed in March 2015 had previously been included on the succession plan and we were, therefore, delighted to recommend their appointments to the Board. We look forward to working with the newly-appointed Group HR Director to continue to ensure strong succession planning.

We recognise that diversity is an important element of succession planning. We also recognise that diversity at Board level and across the Group, including with respect to gender, is critical to our continued success. Although we continue to welcome the provisions of the Code which require the consideration of diversity at Board level, we do not consider that the setting of targets is necessarily in the best interests of the Group and, instead, prefer to consider all aspects of diversity (including gender) when assessing the composition of the Board and any future appointments.

Phil White
Chair of the Nomination Committee
16 September 2015

Corporate governance
Risk Management and Audit Committee Report


Richard Bailey
Chair

Dear shareholder,
I am pleased to present the Risk Management and Audit Committee Report which summarises the work of the Committee during the 2015 financial year. I will be available at the AGM on 12 November 2015 to answer any questions you may have about the Committee's work and the Group's systems of risk management and internal control.

During the year, the Committee has supported the Board in maintaining sound financial reporting, risk management and internal control procedures. Further details of the Committee's role are summarised under 'Role' below.

I have regular meetings with the Group's external and internal auditors, the Finance Director, the Group Financial Controller and the Head of Group Risk and Assurance to discuss matters which are relevant to the Committee's work. To assist us in understanding the business and the risks associated with it, I and other members of the Committee visited a number of the Group's sites during the year and met members of management below the Board to discuss matters relevant to the Committee. These visits and meetings, together with the reports we receive throughout the year, supported the effective operation of the Committee.

To achieve effective compliance with regulatory requirements, the Committee's terms of reference are reviewed annually. The terms of reference were reviewed at the June 2015 Committee meeting and were updated to reflect the requirements introduced by the September 2014 edition of the UK Corporate Governance Code ('the Code'), which became effective for accounting periods beginning on or after 1 October 2014 and will, therefore, apply to Kier's 2016 financial year.

The principal changes to the Code extended the Board's responsibilities to confirm that it has undertaken a robust assessment of the principal risks associated with the Group's business model, future performance, solvency and liquidity; to provide a statement of the longer-term prospects and viability of the Group; and to monitor the Company's risk management and internal control systems on a continuing basis. I believe that the Committee is properly prepared to support the Board in relation to these additional requirements during the 2016 financial year and will work with its external advisers and management in order to do so.

Role
The primary elements of the Committee's role are to:

- Monitor the Group's financial reporting procedures and the effectiveness of the external audit;
- Examine the integrity of the Group's financial statements and challenge significant financial reporting and other judgements in relation to the financial statements;

- Review the adequacy and effectiveness of the Group's systems of internal control and risk management;
- Review the adequacy of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible misdemeanours, known as 'whistle-blowing';
- Review the Group's procedures for detecting fraud;
- Appraise the effectiveness of the Group's internal audit function, agreeing the topics to be addressed each year and reviewing the results of its work; and
- Test the independence and objectivity of the external auditor (in accordance with the requirements of the Code) and approve any non-audit services provided by the external auditor.

The terms of reference for the Committee can be viewed on the Company's website at http://www.kier.co.uk/corporategovernance.

Composition and meeting attendance

The members of the Committee are:

- Richard Bailey (chair)
- Kirsty Bashforth
- Amanda Mellor
- Nick Winser

I am a chartered accountant and a partner in Rothschild, the investment bank. In light of my significant experience from advising companies over 35 years, I am considered by the Board to have recent and relevant financial experience.

The Committee met formally five times during the 2015 financial year. Each of the members of the Committee attended those meetings. The following were also in attendance:

- The Finance Director, the Group Financial Controller and the Head of Group Risk and Assurance (which includes the internal audit function);
- The other executive directors, when required to do so to provide information about specific matters;
- Representatives from PwC for agenda items relating to the 2015 external audit or internal audit matters (prior to its appointment as the external auditor at the 2014 AGM); and
- Representatives from KPMG for agenda items relating to internal audit matters or the 2014 external audit (prior to PwC's appointment as the external auditor).

The secretary of the Committee is the Company Secretary. Details of attendance at Committee meetings during the 2015 financial year are set out on page 69.

Principal activities in the 2015 financial year

The following matters were considered during the Committee meetings which took place during the year:

	Sept	Dec	Feb	Mar	June
Financial reporting					
Full-year results and announcements	•				•
Half-year results and announcements			•		
Going concern	•		•		
Dividend	•		•		
External audit					
General update	•		•		•
Management representation letter	•		•		
Evaluation of external auditor's effectiveness	•				
Recommendation of appointment	•				
Non-audit fees	•	•	•	•	•
External audit plan					•
Internal audit					
General update	•	•	•	•	•
Evaluation of internal auditor's effectiveness[1]		•			
Approval of internal audit plan					•
Other					
Risk management (including 'whistle-blowing')		•	•	•	•
Compliance with corporate governance requirements (including 'fair, balanced and understandable' requirement)	•	•	•	•	
Review of terms of reference					•
ERP programme implementation				•	•

[1] The Committee discussed the process for assessing the effectiveness of the internal audit function at the December 2014 meeting. The Committee will review KPMG's effectiveness during the 2016 financial year. See 'Internal audit' on pages 78 and 79.

Risk management and internal controls

The Board has ultimate responsibility for the Group's risk management and internal control systems. The Board is also responsible for determining the nature and extent of the risks that it is prepared to take.

Corporate governance
Risk Management and Audit Committee Report continued

The Head of Group Risk and Assurance reports to the Committee on strategic risk issues and has oversight of the Group's risk management procedures. Management is responsible for the identification and evaluation of the risks that apply to the Group's business and operations, together with the design and implementation of controls which are designed to manage those risks.

The management of the Group's operations includes a sound assessment of risk. Risk registers are prepared at business unit, divisional and Group level. Those registers identify internal and external factors and risks, including those relating to contract delivery, tender pricing, the Group's IT systems and the Group's funding requirements. These risks, and the controls designed to mitigate them, are continuously monitored. A report of the principal risks and an assessment of those controls, based on the consolidation of the Group's risk registers, is reviewed by the Committee on a quarterly basis. Please see page 32 for further information on how the Group identifies and manages risk.

During the year, the Committee increased the strength of the risk assessment process and the level of independent review and challenge to it. For example, subject matter experts have been assigned to the identified principal risks and are responsible for providing support and challenge to the business in assessing and managing them.

The Group's management of risk is designed to mitigate, but cannot completely eliminate, the risks faced by the Group. Examples of the principal aspects of the Group's risk management framework include:

- The Risk Review Committee, which reviews risks arising during tenders for new contracts;
- The Investment Committee, which reviews risks relating to investment decisions taken by the Group;
- The Group's standing orders that set out delegated authorities within which the Group operates. These are supplemented by standing orders which apply at divisional and business unit levels; and
- A number of group-wide committees which ensure that key risks are managed appropriately. These include the Safety, Health and Environment Committee and committees which focus on the management of IT risks relating to the Group.

To reinforce this structure, the Group has a 'whistle-blowing' arrangement which enables employees to raise concerns, in confidence, over possible misdemeanours. The Committee considers the arrangement to be appropriate and continues to monitor its effectiveness.

The Code and the Committee's terms of reference require the Committee, at least annually, to conduct a review of the effectiveness of the Group's risk management and internal control systems on behalf of the Board. The Committee reviewed the output from the quarterly risk management process, the annual control self-assessment process and a number of internal audit reviews carried out by KPMG across the Group's operations. These reviews confirmed that, in general, the Group's risk management and internal control systems are effective, and support the production of appropriate financial information, but also identified a number of areas in which more efficient systems are required to reflect the Group's recent growth and to support the delivery of Vision 2020. Those areas principally relate to the need for the consistent application of control processes and systems and the effective centralisation of certain back-office functions. During the 2016 financial year, the Committee will oversee management's response to the recommendations made by KPMG in its internal audit reviews.

Internal control and risk management systems – financial reporting process

The Group has clear policies and procedures (for example, those contained in the Group Finance Manual) to ensure the conformity, reliability and accuracy of financial reporting, including the process for preparing the Group's interim and annual financial statements.

The Group recruits suitably qualified and experienced finance professionals who have responsibility for the financial reporting process. Duties are segregated, with clear lines of accountability and delegation of authority. The Group's financial reporting policies and procedures cover financial planning and reporting, preparation of financial information and the monitoring and control of capital expenditure. The Group's financial statements review process includes reviews at business unit, divisional and Group levels.

Details of the Committee's involvement in the external audit process are set out below. When fulfilling its obligation to review the integrity of the Group's financial statements, the Committee receives support from the Group's other functions, including the company secretariat, legal, compliance and internal audit functions, and other Board committees.

Internal audit

Change of internal auditor

Prior to its appointment as external auditor with effect from the 2014 AGM, PwC resigned as internal auditor. At the conclusion of a tender process, the Committee recommended the appointment of KPMG as the Group's new internal auditor. The Committee oversaw the transition from PwC to KPMG during the 2015 financial year.

Internal audits – 2015 financial year

During the 2015 financial year, the Committee monitored the implementation and progress of the 2015 internal audit plan which was reviewed and approved by the Committee at its June 2014 meeting. Upon its appointment, KPMG continued with this programme of internal audits. Results from each completed audit were discussed by the Committee, together with the management actions taken with respect to those audits.

Internal auditor effectiveness
The Code and the Committee's terms of reference require the Committee to monitor and review the effectiveness of the Company's internal audit function. The Committee believes that, in order for it to assess KPMG's effectiveness, KPMG needs to have completed a sufficient number of internal audits. Therefore, the Committee intends to conduct a formal assessment of KPMG's performance in the 2016 financial year and will provide details of the results of this assessment in the 2016 annual report. The Committee is satisfied that the transition to KPMG was completed efficiently and effectively and that the internal audit function fulfilled its objectives for the year.

External audit
The Committee is responsible for:

- Monitoring the effectiveness of the external audit process;
- Making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor;
- Approving the remuneration and terms of engagement of the external auditor;
- Reviewing and monitoring the external auditor's independence and objectivity; and
- Developing and implementing a policy on the engagement of the external auditor to supply non-audit services.

External auditor appointment process
Following a comprehensive tender process, PwC was appointed as the Group's external auditor for the 2015 financial year at the 2014 AGM.

During the year, the Committee oversaw the handover from KPMG and ensured that PwC familiarised itself with the Group. In order to do so, PwC met key employees and members of management, including a number of individuals from outside of the finance function, on formal and informal occasions, and visited a number of the Group's sites.

External auditor effectiveness
The Committee is pleased with the insights provided by the new audit team and its performance to date. The Committee has begun the process of formally assessing PwC's effectiveness by asking members of the Committee, the executive directors and individuals who have worked with PwC during the 2015 financial year to provide their feedback. This process will conclude after the completion of the 2015 audit and further details will be included in the 2016 annual report.

A similar review was conducted by the Committee with respect to the outgoing auditor, KPMG, where feedback was sought from key individuals as to KPMG's performance. No material issues were raised during the assessment. The Committee would like to thank KPMG for many years of excellent service.

PwC has indicated its willingness to continue in office and the Committee has recommended PwC's re-appointment to the Board which will, in turn, propose a resolution to this effect at the 2015 AGM.

External auditor independence and non-audit services
During the 2015 financial year, PwC provided non-audit services to the Group. The Committee monitors the level and scope of non-audit work awarded to PwC to ensure that any services provided are within relevant ethical guidance and that the associated fees are not of a level that would affect PwC's independence and objectivity. All fees relating to the provision of non-audit fees by PwC must be referred to and agreed by the Committee.

The fees paid to PwC during the 2015 financial year in respect of non-audit services were £496,000, as follows:

Type of services	Specific services	Amount (£000)
Non-audit assurance	Project assurance in relation to ERP project	25
	Mersey Gateway project joint venture governance review	30
	Sustainability reporting assurance	50
	Interim review – 2015 financial year	35
Tax advice and compliance	Flexible subsistence advice and tax compliance services	50
	Tax compliance and consultancy services in Trinidad	6
Transaction advice	Reporting accountant's work for Mouchel, carried out at the request of Kier	300
Total		**496**

The total audit fees payable by the Group with respect to the 2015 financial year were £1,240,000, of which £820,000 related to the audit of Kier's 2015 financial statements and £420,000 related to the audit of Mouchel's 2015 financial statements, Mouchel's previous accounting reference date having been changed from 30 September to 30 June upon completion of its acquisition by Kier. The total non-audit fees during the 2015 financial year represented approximately 40% of the audit fees payable in respect of the year. During the 2014 financial year, £855,000 was paid to the external auditor, KPMG, in relation to non-audit fees, representing approximately 101% of the audit fees for that year. All figures exclude VAT.

Corporate governance
Risk Management and Audit Committee Report continued

PwC has strict requirements on rotation and the lead audit partner is required to change after five years and other senior team members are required to change after seven years. PwC also provides the Committee with information on how it manages its independence and objectivity.

As part of the 2015 audit process, PwC confirmed that it was independent within the meaning of applicable regulatory and professional requirements. Taking this into account, and having considered the steps taken by PwC to preserve its independence, the Committee concluded that PwC's independence as external auditor had not been compromised notwithstanding the level of non-audit fees incurred during the year.

Financial statements – 2015
The 2015 audit

The scope of the 2015 audit was discussed and approved by the Committee at its meeting in June 2015. The Committee reviewed and challenged the proposed plan and considered the levels of materiality and resources proposed by PwC to ensure that they met the Group's requirements. The audit fee was also discussed with the Committee prior to its approval.

During the 2015 audit, I met the lead audit partner from PwC to discuss the audit process and its findings. At its September 2015 meeting, the Committee reviewed PwC's findings and discussed the significant issues that arose during the audit. In particular, the Committee and PwC discussed the key accounting and audit judgements and reviewed any unadjusted audit differences which had been identified.

Significant issues and other accounting judgements

The Committee is responsible for reviewing the appropriateness of management's judgements, assumptions and estimates in preparing the financial statements. Drawing on its own experience, and after discussions with management and PwC, the Committee determined that the significant issues and other accounting judgements relating to the 2015 financial statements were as follows:

Significant issue and other accounting judgement	How the issue or accounting judgement was considered
Acquisition accounting for Mouchel	The Group acquired Mouchel on 8 June 2015. Accounting for the acquisition required an assessment of the fair value of the assets and liabilities acquired, including the valuation of any separately identifiable intangible assets and goodwill. During due diligence relating to the acquisition, the Company identified a number of exposures in Mouchel which were not previously recognised in its balance sheet. Management worked with its external advisers on the transaction to agree the amount of the fair value adjustment, which was also considered by the Board when considering the acquisition. The Committee is satisfied that the fair value adjustment which has been included in the 2015 financial statement reflects management's best estimate of the exposures which were identified. The due diligence exercise also focused on contract assumptions and judgements, including those relating to profitability, claims and cash flow. The Committee is satisfied that extensive due diligence, using both internal and external resources, was conducted with respect to assessing the value of Mouchel's customer contracts.
Valuation of land and properties	The Group holds inventory within the Residential division, primarily comprising land held for residential development for which construction has not started and work-in-progress. The carrying value of the inventory is based on the Group's current forecast estimate of the sales prices and building costs. One of the key elements of the system of risk management and internal control within the Residential division is the development appraisals prepared by management, using a number of internal and external reference points. At its meeting in June 2015, the Committee identified the valuation of land and properties as a key area of judgement and, therefore, agreed that PwC would challenge the principal assumptions underlying management's appraisals during the 2015 audit. PwC's conclusion is set out in the independent auditor's report: please see page 113.

Significant issue and other accounting judgement	How the issue or accounting judgement was considered
Accounting for long-term contracts	The Group has significant long-term contracts in the Construction and Services divisions. Profit is recognised according to the stage of completion of the contract. The assessment of profit requires the exercise of judgement when preparing estimates of the forecast costs and revenues of a contract. A number of factors are relevant to this assessment, including in particular the expected recovery of costs. During the year, the Board reviewed and considered management's latest assessment of the forecast costs and revenues on certain significant long-term contracts. The Committee identified accounting for long-term contracts as one of the principal matters for review by PwC in the 2015 audit and discussed management's assessment of the profit on such contracts with PwC when considering the interim and year-end financial statements. At its meeting in March 2015, the Committee received a presentation from the Group Commercial Director about the Group's controls relating to contract administration and management. These controls are designed to assist the Group to assess the performance of the Group's contracts.
Accounting for adjustments to underlying profit	Management has provided a separate disclosure of 'non-underlying' items, in addition to presenting the underlying results of the Group. Detals of those items are set out in note 4 to the consolidated financial statements. The non-underlying items and their disclosure have been discussed at Board meetings during the 2015 financial year. The classification of items as 'non-underlying' relates to the application of the Group's accounting policies, IFRS and recent pronouncements by the Financial Reporting Council on the matter. The Committee reviewed and considered these items with management in the context of its review of the 2015 financial statements. The Committee also reviewed the work of PwC in this area.
Assessment of carrying value of goodwill	The majority of the Group's goodwill relates to the acquisitions of Mouchel and May Gurney. One of the principal areas of focus of both the Board and the Committee during the 2015 financial year was the performance of the Group, which was of particular relevance to the audit procedures conducted by PwC with respect to the value of goodwill. PwC's conclusion is set out in the independent auditor's report: please see page 115.

Fair, balanced and understandable

The Board delegated to the Committee the responsibility for ensuring that the information presented in this annual report, when taken as a whole, is fair, balanced and understandable and contains the information necessary for shareholders to assess the Group's performance, business model and strategy.

The principal aspects of the review process implemented by the Committee and management are summarised as follows:

- Setting up a committee of senior individuals within the Group to draft the annual report, with each of these individuals having responsibility for the production of certain sections of the document;
- Holding regular meetings of this committee to discuss and agree significant disclosure items;
- The committee members retaining copies of supporting materials and confirming that, in their opinion, the sections drafted by them were 'fair, balanced and understandable';
- Arranging for PwC and FutureValue (a corporate reporting consultancy) to review the annual report in light of the requirement and for Mercer, the Company's remuneration consultants, to review the Remuneration Report;
- Circulating drafts of the annual report to the Committee and the Board to ensure that the document reflected the directors' views of the material issues facing the Group; and
- Discussing material disclosure items at a meeting of the Committee.

Richard Bailey
Chair of the Risk Management and Audit Committee
16 September 2015

Corporate governance
Safety, Health and Environment Committee Report

Dear shareholder,
I am pleased to present the Safety, Health and Environment Committee Report for 2015.

The health and safety of all those who visit and work at the Group's sites, together with the protection of the environment, have been and will remain key priorities for Kier. It is therefore important that the Group has a well-established and robust governance structure, led by the Committee, to ensure that safety, health and environment ('SHE') matters are appropriately managed by the Group.

Having recently acquired Mouchel, the Group now operates on several hundred sites at any one time, both throughout the UK and internationally, and employs over 24,000 staff. The projects undertaken by the Group are not only complex, but inherently dangerous. Although I am pleased to be able to report, overall, a strong SHE performance in 2015, the fatal road traffic accidents which occurred during the year, in particular, demonstrate the need to seek continuous improvement in the management of SHE risks in the workplace.

This report provides a summary of the Committee's activities during 2015. I will be available to answer any questions about the work of the Committee at the AGM on 12 November 2015.

Role

The role of the Committee includes:

- Assisting the Board to review the Group's strategy with respect to SHE matters;
- Encouraging management accountability with respect to managing the Group's SHE risks;
- Reviewing and, as necessary, approving material group-wide SHE initiatives, policies and procedures;
- Receiving reports on any major health and safety or environmental incidents; and
- Reviewing the Group's exposure to SHE risks and monitoring the Group's performance against SHE targets.

The terms of reference for the Committee can be viewed on the Company's website at http://www.kier.co.uk/corporategovernance.

Composition and meeting attendance

The members of the Committee are:

- Nick Winser (Chair)
- Kirsty Bashforth
- Amanda Mellor

The executive directors and the Group SHE Director are invited to, and expected to attend, meetings, unless they are notified to the contrary. The secretary of the Committee is the Company Secretary.

Details of attendance at Committee meetings during the 2015 financial year are set out on page 69.

Principal activities – 2015

A summary of the Committee's principal activities in the 2015 financial year is as follows:

New Group SHE Director

As a committee, we were delighted with the appointment of John Edwards as the new Group SHE Director earlier in 2015. Since his appointment, John has been undertaking a review of the Group's approach to the management of SHE risks – for example, reviewing SHE governance, re-drafting documentation and procedures and overseeing an assessment of the Group's culture with respect to SHE issues (see below).

SHE strategy

The Committee has closely reviewed management's plans to ensure that the management of SHE issues remains a top priority in the context of Vision 2020. In particular, we have challenged management to ensure that the Group's SHE strategy remains aligned with the Group's overall corporate strategy and that, as the Group continues to grow, its SHE culture, policies, procedures and governance remain appropriate and able to continue to support the business.

Fleet

As a committee, we oversaw management's investigations into the fatal road traffic accidents which occurred during the 2015 financial year, reviewed the incident reports and challenged management to ensure that the learning points from the incidents were appropriately communicated throughout the Group. Specifically, these incidents led to the Committee overseeing a number of significant policy changes with respect to driving at work – for example, the banning of making or receiving telephone calls whilst doing so.

High-potential incidents

During the course of a year, 'high-potential' incidents will occur on the Group's sites. Management has well-established processes to ensure that the remedial actions to be taken after the reporting of any such incidents are closed-out. The Committee provided constructive challenge to management to ensure this is done in a timely manner. In addition, we assisted management to continue to promote the benefits of, and encourage, the reporting of such incidents and to ensure the effective communication of the learning points across the Group.

Regulatory investigations

One of the areas of the Committee's remit is to ensure that management responds appropriately and in a timely to manner to investigations conducted by regulatory bodies in relation to SHE matters. For example, from time to time, the Health and Safety Executive ('the HSE') and the Environment Authority ('the EA') will conduct investigations into incidents which occur on the Group's sites. Some of these investigations result in court proceedings being taken against the Group and, as a committee, we work with management to ensure that its approach to the conduct of these proceedings is appropriate.

During the 2015 financial year, the Committee oversaw management's responses to the HSE investigation into the fatality which occurred on the Crossrail site at the BFK Holborn site in March 2014, the proceedings brought against Kier and its joint venture partners in Hong Kong as a result of a fatality on site in September 2013 and the investigations into the road traffic accidents which occurred during the 2014 and 2015 financial years. We have also overseen management's response to the EA in connection with a water pollution incident (December 2013) and a fuel spillage (November 2014) and discussed with management its strategy with respect to the defence of proceedings brought against Kier and its joint venture partners in Hong Kong which relate to two allegations of water contamination.

Behavioural safety self-assessment

One of the most significant activities of the Committee in 2015 was to oversee the behavioural safety self-assessment which management instigated across the Group's operations. Each business was asked to assess its 'cultural maturity' against a series of questions in order to set a benchmark against which to measure and continuously improve the Group's SHE culture and ensure that it remains appropriate as the Group continues to grow.

The results of this self-assessment will be used to develop the policies and procedures to assist the Group to develop a fully-integrated SHE culture following the acquisition of Mouchel. Overseeing management's development of these policies and procedures will be one of the Committee's priorities in 2016.

Nick Winser
Chair of the Safety, Health and Environment Committee
16 September 2015

Corporate governance
Remuneration Report

Amanda Mellor
Chair

Annual statement of the chair of the Remuneration Committee

Dear shareholder,

On behalf of the Board, I am pleased to present the Remuneration Report for 2015, which provides details of the remuneration earned by the directors in the 2015 financial year.

Our remuneration policy was approved by shareholders at the 2014 AGM and no changes have been made this year. However, in order to ensure transparency and so as to provide context for the decisions taken by the Committee during the year, the Committee has decided to include a summary of the policy in this report. Information relating to the implementation of our remuneration policy in the 2015 financial year is included in the annual report on remuneration.

Similar to last year, this report is divided into three sections: this annual statement, the annual report on remuneration on pages 86 to 97 (inclusive) and a summary of the directors' remuneration policy on pages 98 to 106 (inclusive).

Following the 2014 AGM and to ensure alignment of executive remuneration at Kier with Vision 2020, the Committee undertook a review of its remuneration advisers. After an extensive tender process, Mercer was appointed to the role.

A summary of the Committee's principal activities during the course of the year is as follows:

Board changes

Bev Dew was appointed as Finance Director with effect from 1 January 2015 and Nigel Brook, Nigel Turner and Claudio Veritiero were appointed to the Board with effect from 6 March 2015. The Committee considered the remuneration of the new Board members against a number of comparators and criteria, whilst also ensuring that it was within our policy on recruitment or internal promotion. The remuneration paid to each of the four new Board appointees since their appointment is set out in the single figure table on page 86.

Steve Bowcott, the former Chief Operating Officer, stood down from the Board with effect from 27 April 2015. The terms of Steve's departure were within the policy on payments for loss of office, as set out on pages 104 and 105. A summary of the terms agreed with Steve is set out on page 90.

Annual bonus and Long-Term Incentive Plan – 2015

Following another year of strong performance, the executive directors will receive bonuses of 91.9% of their respective base salaries. These bonuses reflect the Group's solid revenue growth, increased profitability and strong health and safety performance over the year, each of which is considered by the Board to be a key performance indicator for the Group, together with the significant individual contributions made by each of the executive directors. Further details of the bonus payments in respect of the 2015 financial year, including the pro rating of payments to those directors who joined or left the Board during the year, are set out on pages 86 to 88 (inclusive).

However, despite underlying EPS growth during the 2015 financial year and a strong total shareholder return ('TSR') performance over the three-year performance period of the Long Term Incentive Plan ('LTIP') award granted in September 2012, the award will not vest in September 2015. As a committee, we believe that the EPS and TSR performance conditions which applied to this award remain challenging and they will therefore apply to the award which will be granted to the executive directors in the 2016 financial year. Please see page 90 for further details.

Review of base salaries

During the year, the Committee undertook a review of the salaries of our executive directors, in conjunction with Mercer. This review took into account a number of factors, including external benchmarking against comparable companies, an assessment of individual experience, length of tenure on the Board and the salary review applicable across the Group. Following this review, the Committee decided that the base salary of the Chief Executive would increase by 5% from £505,000 to £530,250 with effect from 1 July 2015, in line with the range of salary increases across the Group. The Committee also agreed that, in light of their recent appointments to the Board, there would be no increases to the base salaries of the other executive directors.

Remuneration – 2016

During the financial year, the Committee considered the Company's remuneration framework and concluded that the current structure, comprising base salary and benefits, a bonus and an LTIP, continued to be appropriate for the 2016 financial year.

In 2016, the annual bonus will operate on substantially the same basis as in 2015, with the maximum opportunity remaining at 100% of base salary. The amount attributable to 'personal objectives' will increase from 10% to 20% and the maximum amount payable with respect to profit performance will decrease from 55% to 45%. The Committee has worked extensively to agree a set of personal objectives which relate to the executive directors' core areas of focus, both individual and collective, over the 2016 financial year and which are designed to support the delivery of Vision 2020. These objectives, together with the assessment of performance against them, will be set out in the 2016 annual report. Further details of the 2016 annual bonus are set out on page 95.

No changes are proposed to the LTIP to be awarded in the 2016 financial year, which will continue to be based on EPS and relative TSR (in equal measure), with a maximum opportunity remaining at 150% of base salary. Further details of the performance conditions of this LTIP award are set out on page 90.

Areas for future consideration

The Committee will continue to review executive remuneration at Kier to ensure that it remains appropriate to promote the long-term success of the Company. The Committee is also aware of the need for executive remuneration to remain competitive and reflect trends in the market. Following the acquisition of Mouchel, and in order to reflect the change in size and shape of the Group and to ensure alignment with Vision 2020, the Committee is undertaking a comprehensive review of the executive remuneration framework at Kier. The Committee intends to consult with shareholders in the event that any material changes are proposed to the current remuneration policy as a result of this review, noting that any revised policy would be subject to shareholder approval at the 2016 AGM.

Compliance statement

This report complies with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules of the Financial Conduct Authority and applies the main principles relating to remuneration which are set out in the UK Corporate Governance Code (September 2012 edition).

Conclusion

I hope that you will find our report helpful. The Committee has sought to ensure full and transparent levels of disclosure with respect to executive remuneration at Kier and to share with shareholders how it seeks to balance various considerations and interests in a fair way for the long-term success of the Group. Linking pay to the Group's performance and reflecting the views of shareholders is fundamental to the remit of the Committee.

As chair of the Committee, I have welcomed the opportunity to meet a number of major shareholders during the course of the year, to understand their views on executive remuneration more broadly and also to share with them the Committee's approach. The Committee has found this engagement with shareholders beneficial, particularly in light of our current review, and will continue to seek to incorporate their views when considering executive remuneration at Kier.

I will be available to answer any questions at the AGM on 12 November 2015.

Amanda Mellor
Chair of the Remuneration Committee
16 September 2015

Annual report on remuneration

Introduction

This section of the report sets out the annual report on remuneration for the 2015 financial year.

The following information contained in this section of the report has been audited: the table containing the single total figure of remuneration for directors and accompanying notes on this page 86, the pension entitlements set out on page 88, the incentive awards made during the year set out on pages 89 and 90, the payments for loss of office set out on page 90, the payments to past directors set out on pages 90 and 91 and the statement of directors' shareholdings and share interests set out on page 91.

Directors' remuneration for the 2015 financial year

The following table provides details of the directors' remuneration for the 2015 financial year, together with their remuneration for the 2014 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

	Salary/fees (£000)		Taxable benefits[1] (£000)		Bonus (£000)		LTIP vesting in year (£000)		All-employee schemes (£000)		Pension[5] (£000)		Total (£000)	
	2014/ 2015	2013/ 2014	2014/ 2015	2013/ 2014	2014/ 2015	2013/ 2014	2014/ 2015[2]	2013/ 2014[3]	2014/ 2015[4]	2013/ 2014	2014/ 2015	2013/ 2014	2014/ 2015	2013/ 2014
Executive directors														
Steve Bowcott[6]	351	378	13	16	322	257	–	110	1	1	69	76	756	838
Nigel Brook[7]	112	–	4	–	80	–	–	–	1	–	21	–	218	–
Bev Dew[8]	188	–	6	–	172	–	–	–	–	–	38	–	404	–
Haydn Mursell	505	378	13	13	464	257	–	110	1	1	96	76	1,079	835
Nigel Turner[7]	112	–	4	–	80	–	–	–	1	–	22	–	219	–
Claudio Veritiero[7]	112	–	2	–	80	–	–	–	1	–	21	–	216	–
Non-executive directors														
Richard Bailey	66	54	–	–	–	–	–	–	–	–	–	–	66	54
Kirsty Bashforth[9]	39	n/a	–	–	–	–	–	–	–	–	–	–	39	n/a
Amanda Mellor	56	54	–	–	–	–	–	–	–	–	–	–	56	54
Phil White	173	165	–	–	–	–	–	–	–	–	–	–	173	165
Nick Winser	56	54	–	–	–	–	–	–	–	–	–	–	56	54
Total	1,770	1,083	42	29	1,198	514	–	220	5	2	267	152	3,282	2,000

1 Comprise private health insurance and a company car or a car allowance.
2 The award granted on 14 September 2012 will not vest.
3 The award granted in November 2011 vested as to 32.7% in November 2014, as detailed on page 77 of last year's annual report. The value is calculated by multiplying the number of shares receivable by the relevant director by the closing price of a share in the capital of the Company on 17 November 2014 of £14.43. The value of these awards referred to in last year's annual report was based on the three-month average share price for the period ended 30 June 2014.
4 The value of the matching shares purchased during the 2015 financial year under the All Employee Share Ownership Plan ('the AESOP'), using an average share price for matching share purchases during the 2015 financial year of £16.08.
5 Comprises the payment of employer pension contributions and/or a cash allowance.
6 Steve Bowcott retired from the Board with effect from 27 April 2015 and his employment with the Group terminated on 30 April 2015. The amounts set out under 'Salary/fees', 'Taxable benefits' and 'Pension' relate to the period from 1 July 2014 to 30 April 2015. The amount set out under 'All-employee schemes' relates to matching shares bought on behalf of Steve under the AESOP during the 2015 financial year. The amount set out under 'Bonus' has been pro rated for active service to 30 April 2015. Payments made to Steve Bowcott during the course of the year with respect to his loss of office and to be made during the 2016 financial year are not included in the table: please see page 90 under 'Payments for loss of office' for further details.
7 Nigel Brook, Nigel Turner and Claudio Veritiero were appointed to the Board with effect from 6 March 2015. The amounts set out under 'Salary/fees', 'Taxable benefits', 'Bonus' and 'Pension' relate to the period after their appointments to the Board. The amounts set out under 'All-employee schemes' relate to matching shares bought on behalf of the relevant individuals under the AESOP during the 2015 financial year.
8 Bev Dew was appointed to the Board with effect from 1 January 2015. The face value of matching shares purchased for him under the AESOP during the 2015 financial year was £145 which is considered 'de minimis' for the purposes of the above table.
9 Kirsty Bashforth was appointed to the Board with effect from 1 September 2014.

All figures in the above table have been rounded to the nearest £1,000. Further information relating to the executive directors' annual bonus and pension entitlements for the 2015 financial year are set out below.

Annual bonus – 2015 financial year

Steve Bowcott, Bev Dew and Haydn Mursell were eligible to receive a bonus of up to 100% of base salary with respect to the 2015 financial year. Of this, 55% related to certain profit performance targets, 25% related to certain cash performance targets, 10% related to health and safety performance targets and 10% related to performance against personal objectives which were approved by the Committee.

The payments due to Steve Bowcott and Bev Dew will be pro rated to reflect their respective lengths of active service during the 2015 financial year. The bonus entitlements of Nigel Brook, Nigel Turner and Claudio Veritiero, each of whom was appointed to the Board during the course of the year, were as described above from the date of their appointments to the Board, with different entitlements relating to the period prior to their appointments. Further detail is provided below.

One-third of any annual bonus awarded to the executive directors (including those appointed during the 2015 financial year) will be satisfied in Kier Group plc shares and is subject to forfeiture in the circumstances set out in the policy table. A similar approach is applied to the annual bonus arrangements for certain members of the senior management team. The Committee believes that part satisfaction of the annual bonus in shares strengthens the alignment of the interests of the executive directors, and members of senior management, with those of shareholders.

Further details of the executive directors' bonuses in respect of the 2015 financial year (in each case before deductions for income tax and national insurance contributions) are provided in the following table:

				Performance level				Performance achieved[1]					
	Weighting	Measure/ weighting		'Threshold'	'On target'	'Stretch'	Actual	Steve Bowcott[2]	Bev Dew[3]	Nigel Brook[4]	Haydn Mursell	Nigel Turner[4]	Claudio Veritiero[4]
Financial	80%	Profit before tax (55%)	Target	<£83.0m	£83.0m	£87.0m	£85.9m	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%
			Pay-out[5]	0%	40%	55%	50.9%						
		Year-end cash/net debt (25%)	Target	£(168.0)m	£(153.0)m	£(138.0)m	£(140.8)m	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
			Pay-out[5]	0%	15%	25%	23.0%						
Non-financial	20%	Health and safety (10%)		See note 6 below				8%	8%	8%	8%	8%	8%
		Personal objectives (10%)		See below				10%	10%	10%	10%	10%	10%
Total (%)								91.9%	91.9%	91.9%	91.9%	91.9%	91.9%
Total (amounts in £000)								£322	£172	£80	£464	£80	£80

1 As a percentage of maximum opportunity, being 100% of base salary for the 2015 financial year, subject to pro rating for time spent on the Board during the year (as described in the following notes).
2 The payment to Steve Bowcott has been pro rated to reflect his service to 30 April 2015.
3 The payment to Bev Dew has been pro rated to reflect his service from 1 January 2015.
4 The payments to Nigel Brook, Nigel Turner and Claudio Veritiero relate to the period after their appointment to the Board. Further information is provided immediately following this table.
5 As a percentage of maximum opportunity.
6 The health and safety performance targets related to a reduction in the Group's AIR from April to June 2015, as compared with the equivalent period in 2014 (maximum opportunity: 5%) and undertaking an agreed number of health and safety site visits (maximum opportunity: 5%).

All amounts in the above table have been rounded to the nearest £1,000.

In accordance with the Group's bonus scheme rules, Nigel Brook, Nigel Turner and Claudio Veritiero each became entitled to a maximum bonus opportunity of 100% of base salary, subject to the same targets as the other executive directors, with effect from 1 April 2015 (being the first calendar month following their appointments to the Board). Prior to their respective appointments to the Board, Nigel Brook's and Nigel Turner's targets related to a combination of Group and business unit performance and Claudio Veritiero's targets related to Group performance.

The bonus payments due to these individuals relating to the periods before and after their appointments to the Board are as follows (in each case before deductions for income tax and national insurance contributions):

Director	Pre-appointment bonus (£000)	Post-appointment bonus (£000)	Aggregate 2015 bonus (£000)
Nigel Brook	£100	£80	£180
Nigel Turner	£163	£80	£243
Claudio Veritiero	£135	£80	£215

All amounts in the above table have been rounded to the nearest £1,000.

During the 2015 financial year, each of the executive directors had a number of personal objectives which were set against their key areas of focus and accountability. The Committee assessed the performance of each executive director against these objectives and agreed that they each warranted the payments set out in the above table.

Examples of these personal objectives are set out in the following table, together with an assessment of performance:

Director	Personal objective	Assessment of performance
Steve Bowcott	• In conjunction with the Chief Executive, oversee the refreshing of the safety culture across the Group • Lead significant cross-divisional tenders	• Assisted the Chief Executive to appoint a new Group SHE Director, who is undertaking a review of the Group's approach to managing SHE risk • Successful examples include the Northamptonshire County Council and Staffordshire County Council tenders
Nigel Brook	• Lead significant tenders within the Construction division • Restructure the senior management team in the Construction division	• Successful examples include the Scape National Minor Works framework and the North West Construction Hub framework tenders • New management team put in place following his appointment to the Board
Bev Dew	• Continue to drive the Group's focus on working capital management • As a new Finance Director, establish relationships with analysts, investors, advisers and lenders	• Reviewed and re-aligned the Group's internal process for cash collection and forecasting, as demonstrated by the Group's net debt position at 30 June 2015 • Positive feedback from investors, analysts and advisers, in particular after the 2015 interims roadshows and the Mouchel transaction. Revised facilities agreed with the Group's lenders during the year
Haydn Mursell	• Provide the Board with clarity on the Group's strategic direction • Develop senior management succession plans	• Regular updates to the Board as to progress against Vision 2020. The Mouchel transaction represents significant progress towards the delivery of this strategy • Three internal appointments to the Board made during the year, with succession plans created for the level immediately below the Board
Nigel Turner	• Continue to develop relationships with partners and funders for the Developments business • Establish succession plans in the Developments business	• A number of opportunities identified during the year, including those with Investec in the Trade City joint venture and Premier Inn • New management team put in place following his appointment to the Board
Claudio Veritiero	• Progress Vision 2020, including establishing a framework to monitor progress • Identify acquisition and disposal opportunities	• Integral role in the Mouchel transaction. Monthly reports to the Board on the progress against Vision 2020 • A number of additional opportunities identified during the year, including the Fleet & Passenger Services disposal announced in July 2015

Pension entitlements

The following executive directors participate in the defined contribution section of the Kier Group Pension Scheme. All receive a pension contribution of 20% of base salary, subject to the annual allowance. The balance is paid as a cash allowance. Cash allowances are subject to the usual tax and national insurance deductions which are payable by the executive director and excluded when determining annual bonus and long-term incentives.

Payments to the executive directors with respect to the Kier Group Pension Scheme during the 2015 financial year were:

Director	Pension contribution	Cash allowance	Total
Steve Bowcott[1]	£33,333	£35,203	£68,536
Nigel Brook[2]	£13,502	£7,500	£21,002
Bev Dew[3]	£20,000	£17,502	£37,502
Haydn Mursell	£40,000	£56,219	£96,219
Nigel Turner[2]	£14,451	£7,500	£21,951
Claudio Veritiero[2]	£13,661	£7,500	£21,161

1 For the period from 1 July 2014 to 30 April 2015.
2 For the period from 6 March 2015 to 30 June 2015.
3 For the period from 1 January 2015 to 30 June 2015.

Incentive awards made during the year

The following incentive awards were made to each of the executive directors during the 2015 financial year:

Award	Basis of award	Director	Face value[1]	Potential award for threshold performance	End of performance period	Vesting date	Difference between exercise price and face value	Performance measures
LTIP[2]	150% of base salary for the year ended 30 June 2015	Steve Bowcott	£219,528	25% of face value	30 June 2017	22 October 2017	n/a	Awards are based 1/2 on three-year cumulative EPS, 1/2 on relative TSR performance. Please see below for details of targets
		Haydn Mursell	£948,002					
		Bev Dew	£391,083			8 May 2018		
	75% of base salary for the year ended 30 June 2015[3]	Nigel Brook	£187,700	25% of face value	30 June 2017	22 October 2017	n/a	
		Nigel Turner	£236,519					
		Claudio Veritiero	£262,801					
Deferred shares	1/3 of the net bonus for the year ended 30 June 2014	Steve Bowcott	£45,269	n/a	n/a	29 September 2017	n/a	Continued service condition (subject to the ‘malus’ provision – please see the future policy table)
		Haydn Mursell	£45,269					
	1/4 of the net bonus for the year ended 30 June 2014[3]	Nigel Brook	£14,574	n/a	n/a	29 September 2017	n/a	
		Nigel Turner	£25,181					
		Claudio Veritiero	£15,852					
AESOP	Matching shares purchased in accordance with the AESOP rules	Steve Bowcott	£627	n/a	n/a	n/a	n/a	Continued service condition
		Nigel Brook	£917					
		Bev Dew	£145					
		Haydn Mursell	£756					
		Nigel Turner	£900					
		Claudio Veritiero	£900					

1 For the LTIP awards, ‘face value’ is calculated using the closing price of a share in the capital of the Company on 21 October 2014 of £15.28 (or, in the case of the award to Bev Dew, the closing price of a share in the capital of the Company on 7 May 2015 of £15.85). For the deferred share awards, ‘face value’ is calculated using the closing price of a share in the capital of the Company on 26 September 2014 of £16.81. For the AESOP, ‘face value’ is calculated using the total number of shares bought on behalf of the relevant individuals during the year and an average share price for matching share purchases during the year of £16.08.

2 The maximum number of shares to which the awards relate have been adjusted for the effects of the rights issue associated with the Mouchel transaction and, in the case of Steve Bowcott, reflects the pro-rating of the award up to 30 April 2015. Please see ‘LTIP awards’ on page 92.

3 These awards were made prior to the individuals’ appointments as executive directors.

Performance conditions (and respective weightings) and targets for the LTIP awards which were granted during the 2015 financial year are set out in the table below. The awards vest on the third anniversary of the grant date (22 October 2017). The same conditions and weightings will apply to the awards to be granted in the 2016 financial year.

Performance condition	Weighting	Targets
Cumulative EPS growth	1/2	0% vesting for below 5% p.a.
		25% vesting for 5% p.a.
		100% vesting for 15% p.a.
		Straight-line vesting between these points
TSR outperformance[1]	1/2	0% vesting for performance below index
		25% vesting for performance in line with index
		100% vesting for performance in line with index +12% p.a.
		Straight-line vesting between these points

1 Against a revenue-weighted index based 50% on the FTSE All-Share Construction and Materials Index and 50% on the FTSE All-Share Support Services Index (representing the Group's approximate prior year revenue mix at the date of grant).

Payments for loss of office

Steve Bowcott's employment with the Group ceased on 30 April 2015. In accordance with the terms of his service agreement and the Company's remuneration policy, it was agreed that Steve would receive a payment in lieu of notice ('PILON'), comprising his base salary, pension allowance and car allowance for his 12-month notice period, to be made on a phased basis, as follows:

- A lump sum payment of £129,275 was made in May 2015 in respect of the first three months of his notice period (being May, June and July 2015), of which £86,183 related to the 2015 financial year; and
- Nine monthly payments of £43,083 (being £517,000 in aggregate), commencing in August 2015. It was agreed that these monthly payments would be reduced if Steve obtained new employment before 30 April 2016, as explained below.

The Company also agreed to continue to provide Steve's private medical insurance for six months from 30 April 2015 or, if earlier, until he secured new employment.

Steve agreed to use reasonable endeavours to seek new employment and that any remuneration earned before 30 April 2016 from any new employment secured would be set-off against the monthly instalments due to him. On 6 July 2015, it was announced that Steve had obtained alternative employment with John Sisk & Son, commencing on 1 September 2015. As a result, the monthly payments will either reduce or cease from such date. All payments made to Steve with respect to the 2016 financial year will be disclosed in next year's annual report on remuneration.

The Company agreed to fund the cost of outplacement counselling for Steve up to a cap of £15,000 (excluding VAT), his legal fees in connection with his departure up to a cap of £10,000 (excluding VAT) and to contribute up to £500 towards the renewal of his membership of the Institution of Civil Engineers before 30 April 2016. In addition, under his service agreement Steve was entitled to a payment of £11,334 in respect of holiday entitlement accrued but untaken to 30 April 2015.

The Company awarded Steve a bonus of £305,000 for that part of the 2015 financial year in which he was actively employed by the Company. In accordance with the deferred share rules, his allocation of 'deferred shares' from 2012 and 2013 were released immediately after the termination of his employment and the 2014 allocation will be released at the expiry of the three-year holding period in 2017. It was also agreed that Steve's 2012, 2013 and 2014 LTIP awards would be permitted to vest on the vesting dates, subject to the satisfaction of their performance conditions and time pro-rating up to 30 April 2015. The Company exercised discretion under the rules of its bonus plan and the LTIP, in each case as contemplated by the remuneration policy, to facilitate these arrangements.

All payments are subject to deductions for tax and national insurance contributions.

Payments to past directors

As reported in last year's annual report, Paul Sheffield stood down from the Board with effect from 30 June 2014. The aggregate monthly payments made to Paul from 1 July 2014 until his alternative employment with Laing O'Rourke commenced in October 2014 was £161,000. During the course of the year, Paul also received £327,000 in respect of his bonus for the 2014 financial year. Please see page 80 of last year's annual report for further details relating to Paul Sheffield's exit arrangements.

The values of the LTIP awards granted to Paul Sheffield and Ian Lawson (who ceased to be a director on 21 June 2013) which vested on 17 November 2014, as disclosed in last year's annual report, were based on a three-month average closing price of a share in the capital of the Company for the period ended 30 June 2014. Using the closing share price from 17 November 2014 of £14.43, Paul Sheffield's award which vested in November 2014 is valued at £152,843 and Ian Lawson's award is valued at £85,281.

The LTIP awards granted on 14 September 2012 will not vest and, accordingly, neither Paul Sheffield nor Ian Lawson will receive any shares under this award. Paul Sheffield retains a pro rated entitlement to the LTIP awarded granted on 28 October 2013 which, subject to performance, will vest on 28 October 2016.

Directors' shareholdings and share interests

The Committee encourages executive directors to build up a shareholding in the Company of at least two years' base salary, to be accumulated 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 following table sets out details, as at 30 June 2015, of the shareholdings and share interests of those persons (together with, where relevant, the shareholdings and share interests of their connected persons) who, during the 2015 financial year, served as a director of the Company:

	Shares held				Options held				
Director	Owned outright[1] or vested	Vested but subject to a holding period[2]	Unvested and subject to performance conditions[3]	Unvested and subject to continued employment[4]	Vested but not exercised	Unvested and subject to continued employment[5]	Shareholding guideline (% of salary)	Current shareholding (% of salary)[6]	Guideline met?
Richard Bailey	2,660	–	–	–	–	–	n/a	n/a	n/a
Kirsty Bashforth	1,119	–	–	–	–	–	n/a	n/a	n/a
Steve Bowcott	17,151	2,693	67,636	93	–	1,847	n/a	n/a	n/a
Nigel Brook	9,201	1,647	33,307	125	–	1,847	200	44.1	No
Bev Dew	767	–	24,674	10	–	–	200	2.91	No
Amanda Mellor	1,492	–	–	–	–	–	n/a	n/a	n/a
Haydn Mursell	28,927	7,108	163,148	112	–	–	200	101.5	No
Nigel Turner	22,260	2,711	39,436	100	–	1,072	200	101.5	No
Claudio Veritiero	5,932	2,167	47,385	124	–	1,847	200	32.9	No
Phil White	4,354	–	–	–	–	–	n/a	n/a	n/a
Nick Winser	5,999	–	–		–	–	n/a	n/a	n/a

1 Comprising legally or beneficially held shares by the relevant director or their connected person (including partnership shares, dividend shares and matching shares purchased before 30 June 2012 under the AESOP – see 'All Employee Share Ownership Plan' below).
2 Comprising deferred shares allocated to the relevant director in connection with annual bonuses. See 'Deferred shares' below.
3 Comprising unvested LTIP awards. With respect to Steve Bowcott, calculated using the pro rated 2013, 2014 and 2015 awards referred to in 'LTIP awards' below.
4 Comprising matching shares purchased after 30 June 2012 under the AESOP. Steve Bowcott's matching shares are calculated to 30 April 2015, when his employment with the Group ceased. See 'All Employee Share Ownership Plan' on page 93.
5 Comprising options under the SAYE Scheme. See 'Share As You Earn Scheme' on page 93.
6 Calculated based on (i) shares owned outright by the director or his connected persons and (ii) deferred shares allocated to the relevant director in connection with annual bonuses, using the closing price of a share in the capital of the Company on 30 June 2015 of £14.23 and base salaries applicable to the year ended 30 June 2015.

All shareholdings and share interests referred to in the above table include shares subscribed for pursuant to the rights issue associated with the Mouchel transaction and adjustments to entitlements under the LTIP awards and SAYE Scheme made to reflect the effects of the rights issue.

Remuneration Report continued

Deferred shares

Those persons who, during the 2015 financial year, served as a director of the Company beneficially owned, at 30 June 2015, the following numbers of shares in the capital of the Company as a result of awards of shares representing one-third of the relevant director's net bonus (in the case of Steve Bowcott and Haydn Mursell) or one-quarter of the relevant director's net bonus (in the case of Nigel Brook, Nigel Turner and Claudio Veritiero) made in each of the years indicated:

Director	2013 award	2014 award	2015 award	Cumulative total 30 June 2015
Steve Bowcott[1]	–	–	2,693	2,693
Nigel Brook	374	406	867	1,647
Bev Dew	–	–	–	–
Haydn Mursell	2,757	1,658	2,693	7,108
Nigel Turner	771	442	1,498	2,711
Claudio Veritiero	523	701	943	2,167
Date of award	14 September 2012	28 October 2013	29 September 2014	–
Share price used for award[2]	1,401 pence	1,785 pence	1,681 pence	–
End of holding period	14 September 2015	28 October 2016	29 September 2017	–

1 The shares held on behalf of Steve Bowcott in respect of the 2013 and 2014 awards (in aggregate, 4,470 shares) were released with effect from the termination of his employment with the Group on 30 April 2015 in accordance with the rules of the deferred share bonus plan.
2 The closing price of a share in the capital of the Company from the business day immediately prior to the date of the award, being 13 September 2012, 25 October 2013 and 26 September 2014, respectively.

LTIP awards

Those persons who, during the year ended 30 June 2015, served as a director of the Company hold LTIP awards over the following maximum numbers of shares in the capital of the Company at 30 June 2015:

Director	2013 award	2014 award	2015 award	Cumulative total 30 June 2015[1]	Cumulative total 30 June 2014
Steve Bowcott[2]	28,953	24,316	14,367	67,636	99,531
Nigel Brook	11,274	9,749	12,284	33,307	31,929
Bev Dew	–	–	24,674[3]	24,674	–
Haydn Mursell	61,315	39,791	62,042	163,148	130,189
Nigel Turner	12,561	11,396	15,479	39,436	35,927
Claudio Veritiero	16,748	13,438	17,199	47,385	45,058
Date of award	14 September 2012	21 October 2013	22 October 2014[3]	–	–
Share price used for award[4]	1,401 pence	1,781 pence	1,528 pence[3]	–	–
End of performance period	30 June 2015	30 June 2016	30 June 2017	–	–

1 The maximum numbers of shares under all awards have been adjusted for the effects of the rights issue associated with the Mouchel transaction, using a standard HMRC formula.
2 The 2013, 2014 and 2015 awards granted to Steve Bowcott were reduced from, respectively, 30,657, 39,791 and 51,722 shares (after adjustment for the effects of the Mouchel rights issue) to reflect his active service during the respective performance periods.
3 The award granted to Bev Dew was made on 8 May 2015, using a share price of £15.85.
4 The middle market quotation of a share from the business day immediately prior to the date of the award.

The performance conditions for the 2013 and 2014 awards are set out in the annual reports in respect of the year in which the awards were made. The performance conditions for the 2015 awards are set out on page 90.

All Employee Share Ownership Plan

Those persons who, during the year ended 30 June 2015, served as a director of the Company beneficially own the following numbers of shares as a result of purchases under the All Employee Share Ownership Plan ('the AESOP') at 30 June 2015:

Director	Unrestricted shares	Partnership shares	Dividend shares	Matching shares (<3 years)	Matching shares (>3 years)	Cumulative total 30 June 2015[1]
Steve Bowcott	711	549	200	93	181	1,734
Nigel Brook	44	695	114	125	222	1,200
Bev Dew	–	21	–	10	–	31
Haydn Mursell	9	578	87	112	176	962
Nigel Turner	1,673	559	344	100	179	2,855
Claudio Veritiero	1	503	65	124	127	820

1 In the case of Steve Bowcott, AESOP purchases made up to 30 April 2015.

Under the AESOP, any amount saved by the executive directors will be applied by the trustee of the AESOP to make monthly purchases of shares on their behalf – 'partnership shares'. The Company matches purchases through the AESOP (currently at the rate of one free share for every two shares purchased – 'matching shares') and the trustee reinvests cash dividends to acquire further shares on behalf of the participants – 'dividend shares'.

Matching shares which have been purchased within three years of the termination of an individual's employment may, depending on the circumstances of such termination, be forfeited.

'Unrestricted' shares are partnership, dividend and matching shares which were purchased more than five years from the relevant date and can be withdrawn from the AESOP trust by the participants without incurring income tax or national insurance liability.

Details of the number of matching shares purchased during the year are set out in the table in the paragraph headed 'Incentive awards made during the year' on page 89. At 16 September 2015, the Company had been notified that the following current directors had acquired beneficial interests in further ordinary shares in the capital of the Company under the AESOP since 30 June 2015: Nigel Brook – 45 shares, Bev Dew – 47 shares, Haydn Mursell – 37 shares, Nigel Turner – 47 shares and Claudio Veritiero – 46 shares. 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 2015.

Save As You Earn Scheme

Those persons who, during the 2015 financial year, served as a director of the Company had the following options under the Kier Group plc 2006 Sharesave Scheme ('the SAYE Scheme') at 30 June 2015:

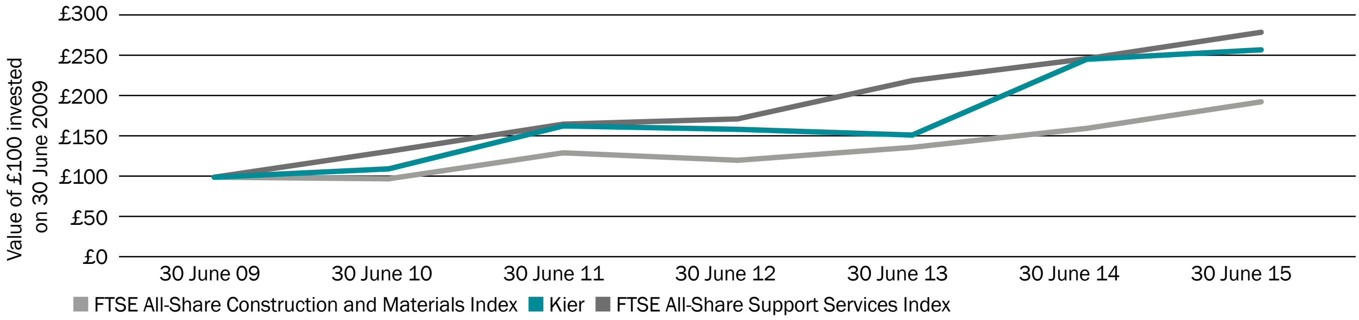
Director	Date granted	Maximum number of shares receivable at 1 July 2014[1,2]	Awarded during the year[2]	Exercised during the year	Lapsed during the year	Maximum number of shares receivable at 30 June 2015[1,2]	Exercise price[1]	Exercise period
Steve Bowcott[3]	27 April 2012	1,072	–	–	–	1,072	839 pence	See note 3 below
	31 October 2014	–	775	–	–	775	1,159 pence	See note 3 below
Nigel Brook	27 April 2012	1,072	–	–	–	1,072	839 pence	1 July 2015 – 1 January 2016
	31 October 2014	–	775	–	–	775	1,159 pence	1 December 2017 – 1 June 2018
Nigel Turner	27 April 2012	1,072	–	–	–	1,072	839 pence	1 July 2015 – 1 January 2016
Claudio Veritiero	3 May 2013	1,072	–	–	–	1,072	839 pence	1 July 2016 – 1 January 2017
	31 October 2014	–	775	–	–	775	1,159 pence	1 December 2017 – 1 June 2018

1 Adjusted for the effects of the rights issue associated with the Mouchel transaction, using a standard HMRC formula.
2 With respect to the options granted in 2013 or 2014, assumes that each director continues to save at the current rate(s) until the commencement of the relevant exercise period. With respect to Steve Bowcott, see note 3.
3 Under the SAYE Scheme rules, Steve Bowcott has until 1 November 2015 (being the date which is six months after the cessation of his employment with the Group) to elect either to exercise the options granted to him in 2012 and/or 2014 or to remove his savings with respect to either or both awards. The savings period relating to the 2012 option concluded on 30 June 2015; he is entitled to continue to make savings in relation to the 2014 option up until he makes his election. If Steve elects to exercise his 2014 option prior to 1 November 2015, the number of shares to which he will be entitled will depend on the level of savings as at the date of exercise. The figures in the table which relate to the 2014 option assume, however, that Steve will continue to save at the current rate until the commencement of the exercise period which would, had Steve remained with the Group, have applied.

Corporate governance
Remuneration Report continued

Total shareholder return and Chief Executive's remuneration
Total shareholder return

The graph below shows the value, at 30 June 2015, of £100 invested in shares in the capital of the Company on 30 June 2009, compared with the value of £100 invested in the FTSE All-Share Construction and Materials and FTSE All-Share Support Services indices. These benchmarks were chosen because they are considered to be the most appropriate against which the TSR of Kier should be measured and represents companies with which Kier competes. They also reflect trends within the UK construction and support services industries generally. The other points plotted are the values at 30 June during the six-year period.



Chief Executive's remuneration

The table below sets out the total remuneration of the Group's Chief Executive paid with respect to each financial year indicated:

	30 June 2010		30 June 2011	30 June 2012	30 June 2013	30 June 2014	30 June 2015
Chief Executive	John Dodds	Paul Sheffield	Paul Sheffield	Paul Sheffield	Paul Sheffield	Paul Sheffield	Haydn Mursell
Total single figure	£1,427,000	£238,000	£753,000	£1,273,000	£987,000	£1,099,000	£1,079,000
Annual bonus[1]	51%		69%	75%	48.8%	67.9%	91.9%
Long-term incentive[1]	0%		0%	100%	31.2%	32.7%	0%

1 As a percentage of maximum opportunity.

All total single figures in the above table are rounded to the nearest £1,000.

Percentage change in the Chief Executive's remuneration

The table below shows the percentage changes in base salary, taxable benefits and annual bonus of the director undertaking the role of Chief Executive in the 2014 financial year (Paul Sheffield), as compared to the 2015 financial year (Haydn Mursell), together with the approximate comparative average figures for those employees within the Group who were also eligible for salary reviews on 1 July of each year and who were not subject to collective agreements. This section of the employee population (comprising approximately 7,600 individuals across a number of levels within the Group) is considered to be the most appropriate group for the purposes of a comparison, as decisions with respect to these employees are within the control of the Group and are affected by similar external market forces as those which relate to the Chief Executive's remuneration. Approximately 600 employees are eligible to receive a bonus.

	Chief Executive change	Other employees change
Base salary	5.0%	4.5%
Taxable benefits	(0.1)%	3.0%
Annual bonus	41.9%	60.9%

Relative importance of spend on pay
The graph below shows the percentage changes in the total employee expenditure and dividend paid between the 2014 and 2015 financial years:

Total employee expenditure (£m)

Dividend (£m)

Employee remuneration is remuneration paid to or receivable by all employees of the Group and is explained in note 6 to the consolidated financial statements.

The dividend figures in the graph comprise the dividends paid in the 2014 and 2015 financial years (as stated in note 10 to the consolidated financial statements), being, respectively, (i) the final dividend for the 2013 financial year and the interim dividend for the 2014 financial year and (ii) the final dividend for the 2014 financial year and the interim dividend for the 2015 financial year.

Implementation of the remuneration policy for the 2016 financial year

Executive directors' base salary

The base salaries of the executive directors are, with effect from 1 July 2015, as follows:

Director	From 1 July 2015	From 1 July[1] 2014	Increase
Nigel Brook	£350,000	£350,000	–
Bev Dew	£375,000	£375,000	–
Haydn Mursell	£530,250	£505,000	5%
Nigel Turner	£350,000	£350,000	–
Claudio Veritiero	£350,000	£350,000	–

1 Or with effect from the date of appointment to the Board, in the case of Nigel Brook, Bev Dew, Nigel Turner and Claudio Veritiero.

Annual bonus

The maximum annual bonus opportunity for each executive director will remain at 100% of base salary for the 2016 financial year, of which 45% will relate to profit performance (2014: 55%), 25% to cash/net debt performance (2014: 25%), 10% to health and safety targets (2014: 10%) and 20% to personal objectives set by the Committee (2014: 10%). The targets, and performance against them, will be disclosed in further detail in next year's annual report. One-third of the net bonus will be satisfied on allocation of shares, deferred for three years.

LTIP awards

The executive directors will be granted LTIP awards of 150% of base salary. The performance conditions for these awards will relate to cumulative EPS growth and TSR outperformance (with equal weightings). The targets for both the EPS and TSR elements of the award are the same as for the awards granted in the 2015 financial year, as described on page 90.

Pension and taxable benefits

The executive directors will receive a pension contribution of 20% of salary, subject to the annual allowance, with the balance being paid as a cash allowance. The executive directors will also receive private health insurance and either a company car or a car allowance of £11,900 per annum. Both amounts remain unchanged from the 2015 financial year.

Non-executive directors' fees

The Board engaged Mercer to review the fees payable to the non-executive directors (including the Chairman), using a range of external reference points.

Having considered the results of the review, the Board decided to increase the base fee payable to the non-executive directors by 8.7% so as to bring it into line with the equivalent fee paid by peer companies.

The Board also decided not to increase the additional fees payable to the Senior Independent Director or the chairs of the Board's committees and that there would be no increase in the non-executive directors' fees from 1 July 2016.

The fee structure applicable to the non-executive directors (excluding the Chairman) with effect from 1 July 2015 is as follows:

Director	From 1 July 2014	From 1 July 2015	Increase
Non-executive director	£46,000	£50,000	8.7%
Chair of Board committee	£10,000	£10,000	–
Senior Independent Director	£10,000	£10,000	–

The Board also decided, having considered the information provided by the benchmarking exercise, that it would also be appropriate to increase the fee payable to the Chairman by 8.7% so as to bring it into line with the equivalent fee paid by peer companies. The Chairman does not receive a fee for his work as the chair of the Nomination Committee. The Committee also agreed that there would be no increase in the Chairman's fee from 1 July 2016.

The total fees payable to the non-executive directors with effect from 1 July 2015 are as follows:

Director	Base fee from 1 July 2015	Chair of committee fee from 1 July 2015	Senior Independent Director fee from 1 July 2015	Total from 1 July 2015	Total from 1 July 2014	Total increase
Richard Bailey	£50,000	£10,000	£10,000	£70,000	£66,000	6.1%
Kirsty Bashforth	£50,000	–	–	£50,000	£46,000[1]	8.7%
Amanda Mellor	£50,000	£10,000	–	£60,000	£56,000	7.1%
Phil White	£188,000	–	–	£188,000	£173,000	8.7%
Nick Winser	£50,000	£10,000	–	£60,000	£56,000	7.1%

1 With effect from 1 September 2014.

Remuneration Committee
Membership and meeting attendance
The members of the Committee are:

- Amanda Mellor (chair)
- Richard Bailey
- Kirsty Bashforth
- Phil White
- Nick Winser

In addition, the Chief Executive is invited, from time to time, to attend meetings of the Committee. No individuals are involved in decisions relating to their own remuneration. The Committee met formally three times during the year. The secretary of the Committee is the Company Secretary.

The terms of reference for the Committee can be viewed on the Company's website at http://www.kier.co.uk/corporategovernance.

Principal activities in 2015
The annual statement on pages 84 and 85 refers to a number of the Committee's principal areas of activity during the 2015 financial year. Other activities during the year included:

- Approving the 2014 remuneration report;
- Approving the bonuses paid to the executive directors in respect of the 2014 financial year;
- Setting the performance measures relating to, and the quantum of, LTIP awards to be made to the executive directors during the 2015 financial year;
- Engaging Mercer to conduct a review of the executive directors' remuneration and the non-executive directors' fees (on behalf of the Board); and
- Reviewing and setting the executive directors' remuneration for the 2016 financial year.

Advisers

During the 2015 financial year, Mercer was appointed by the Committee as its remuneration advisers, in succession to Kepler Associates ('Kepler'), which also provided remuneration advice to the Committee during the year.

Mercer provides advice in respect of the Mouchel Superannuation Fund. However, the Committee is satisfied that neither Kepler nor Mercer, in providing remuneration advice to the Committee, had any connection with the Company that impaired its independence. Total fees of £89,450 (excluding VAT) were payable in respect of advice received from Mercer and Kepler during the 2015 financial year. Mercer is a signatory to 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 (Hugh Raven) and the Group HR Director (Chris Last).

Shareholder voting

At the 2014 AGM, the results of the votes on the resolutions relating to the remuneration policy and the remuneration report were:

	Votes for[1]	Percentage votes for	Votes against	Percentage votes against	Votes withheld
Remuneration policy	31,687,997	98.87	361,173	1.13	115,415
Remuneration report	28,194,444	88.52	3,658,724	11.48	311,867

1 Includes those votes for which discretion was given to the Chairman.

Directors' remuneration policy (summary)

Introduction

Kier's remuneration policy which was approved at the 2014 AGM will continue to apply in the 2016 financial year. Accordingly, we will not be seeking shareholder approval for a revised policy at the 2015 AGM.

The Committee has decided to include the policy table and certain other extracts from the policy in this year's report for ease of reference and so as to provide context for the decisions taken by the Committee during the year. Where relevant, references to 2015 targets in the policy have been updated to refer to 2016 targets, together with certain other non-material changes. The full policy is set out on pages 69 to 76 (inclusive) of last year's annual report, which can be found on Kier's website at http://www.kier.co.uk/annualreport2014.

Policy table

A summary of the Group's policy for each element of an executive director's remuneration is set out in the table below:

Element and link to strategy	Operation	Opportunity	Performance measures
Base salary To attract and retain executive directors of the calibre required to deliver the Group's strategy.	Salaries are reviewed annually by reference to an individual's experience, performance and role within the Group, the external market (including FTSE companies of a similar size and sector peers) and any increase awarded to the wider employee population. Any increase is typically effective from 1 July.	Any increase will typically be in line with those awarded to the wider employee population. The Committee has discretion to award higher increases in circumstances that it considers appropriate, such as a material change in the complexity of the business or an individual's responsibility. Details of salary changes will be disclosed in the annual report.	Continued strong performance.
Benefits To provide benefits which are competitive with the market.	Benefits are reviewed from time to time and typically include, but are not limited to, a company car or car allowance, private health insurance and life assurance. In certain circumstances, the Committee may also approve the provision of additional benefits or allowances – for example, the relocation of an executive director to perform his or her role.	Benefits are set at a level which the Committee considers appropriate in light of the market and an individual's circumstances.	None.
SAYE Scheme To encourage ownership of the Company's shares.	An HMRC-approved scheme allowing all employees, including executive directors, to save up to the maximum limit specified by HMRC rules. Options are granted at up to a 20% discount.	The maximum amount that may be saved is the limit prescribed by HMRC (or such other lower limit as determined by the Committee) at the time employees are invited to participate in the scheme. Typically, employees are invited to participate on an annual basis.	None.
AESOP To encourage ownership of the Company's shares.	An HMRC-approved scheme which is open to all UK tax resident employees of participating Group companies. Executive directors are eligible to participate. The plan allows employees to purchase shares out of pre-tax income. The Company may match shares purchased with an award of free shares. Matching shares may be forfeited if employees leave within three years of their award, in accordance with the AESOP rules. The plan trustee can reinvest cash dividends to acquire further shares on behalf of participants.	Participants can purchase shares up to the prevailing limit approved by HMRC (or such other lower limit as determined by the Committee) at the time they are invited to participate. The Company currently offers to match purchases made through the plan at the rate of one free share for every two shares purchased.	None.
Pension To provide a retirement benefit which is competitive with the market.	Executive directors participate in a defined contribution scheme.	For current executive directors, the maximum employer contribution is 20% of pensionable salary. Executive directors may elect to receive all or part of the employer contribution as a taxable cash supplement.	None.
Annual bonus To reward the delivery of near-term performance targets and business strategy.	The Company operates a discretionary bonus scheme. Performance measures and targets are set by the Committee at the start of the year. Payments are based on an assessment of performance at the end of the year. One-third of any award is deferred for three years (subject to early release for 'good leavers') and satisfied in Kier Group plc shares. Past awards of deferred shares are subject to forfeiture if an individual's employment is terminated in circumstances of gross misconduct and/or justifying summary dismissal and/or the Group's profit before tax or cash position for the relevant year is found to have been misstated. Awards of deferred shares made from 2014 will include a revised 'malus' provision. See 'Malus' on page 102. Dividend payments accrue on deferred bonus shares over the deferral period.	The current maximum potential bonus is 100% of base salary. 'Threshold' performance, for which an element of bonus may become payable under each component of the annual bonus, is set by the Committee at the start of each financial year. The level of bonus for achieving threshold performance varies by performance measure, and may vary for a measure from year to year, to ensure that it is aligned with the Committee's assessment of the degree of difficulty (or 'stretch') in achieving it.	The performance measures and targets for the 2016 financial year are profit (45%), cash (25%), health and safety (10%) and personal objectives (20%). The Committee has discretion to determine the measures and their relative weightings each year. The weighting towards non-financial measures will be no higher than 25% of the maximum potential bonus. The Committee has discretion to adjust bonus payments to ensure that they accurately reflect business performance over the performance period and are fair to shareholders as well as recipients. Actual targets for each performance measure (and performance against each of these targets), and any use by the Committee of its discretion with respect to bonus payments, will be disclosed in the annual report immediately following the end of the performance period.

Remuneration Report continued

Element and link to strategy	Operation	Opportunity	Performance measures
LTIP To reward the sustained strong performance by the Group over three years.	Awards are made annually and vest, subject to the achievement of performance conditions, at the end of a three-year performance period. At the start of each performance period, the Committee sets performance targets which it considers to be appropriately stretching. Awards are satisfied in the form of a deferred, contingent right to acquire shares in the Company, at no cost to the individual. LTIP awards granted from 2014 will include a 'malus' provision. See 'Malus' on page 102. If an event or series of events occurs as a result of which the Committee deems it fair that the performance conditions should be waived or modified, the Committee has discretion during the vesting period to waive or modify them. Any modified performance conditions must be no more difficult to satisfy than the original performance conditions were when first set. Any use of Committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant annual report.	The maximum award under the rules of the plan is 200% of base salary. The Committee may grant awards of up to the maximum permitted under the LTIP rules when it considers it appropriate to do so. The reasons for an award in excess of 150% of salary will be disclosed in the relevant annual report. On achieving the threshold performance level for each element of the award, 25% of the relevant element of the award will vest. Vesting is on a straight-line basis between threshold and maximum levels of performance.	LTIP awards will be awarded in the 2016 financial year based on an equal weighting of EPS and TSR performance. EPS performance is measured by compound cumulative growth over the performance period. TSR outperformance is measured on a multiplicative basis relative to a revenue-weighted index based on the FTSE All-Share Construction and Materials and FTSE All-Share Support Services indices. If TSR outperformance is used in future award cycles, the revenue weightings will be fixed based on the Group's approximate revenue mix in the year prior to grant. The Committee retains discretion to supplement EPS and TSR with additional performance measures to ensure that the awards are always linked to sustained business performance. No measure will carry a weighting of less than 25%. Actual performance measures and weightings will be disclosed in the annual report immediately following the granting of an award.

The Committee is satisfied that this remuneration policy is in the best interests of shareholders. The Committee retains discretion to make non-material changes to the policy without reverting to shareholders.

Payments from outstanding awards

The Company will honour any commitment entered into, and executive directors will be eligible to receive payment from any award made, prior to the approval and introduction of the remuneration policy with effect from the AGM on 13 November 2014.

Notes to the policy table

'Malus'

Deferred annual bonus awards made before 2014 include the 'malus' provision described in the table above, whereas deferred annual bonus and LTIP awards granted from 2014 onwards are and will be subject to revised 'malus' provisions. These allow the Committee to determine, in its absolute discretion, that (i) an unvested LTIP award (or part of an award) may not vest or that the level of vesting is reduced and/or (ii) the number of deferred shares (allocated in part satisfaction of the annual bonus) is reduced (including to nil) in certain circumstances. Examples of such circumstances include, but are not limited to:

- A material misstatement of the Group's financial statements;
- A material error in determining the level of satisfaction of a performance condition or target;
- A participant deliberately misleading the Company, the market and/or shareholders in relation to the financial performance of the Group; and
- A participant's employment being terminated in circumstances of gross misconduct and/or circumstances justifying summary dismissal.

The Committee has the right to apply the 'malus' provision to an individual or on a collective basis.

Executive director shareholding guidelines

The Committee encourages executive directors to accumulate a shareholding in the Company of at least two years' base salary over a period of up to five years. Executive directors are 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 they reach this level of shareholding.

Selection of performance measures and approach to setting targets

The measures used for the annual bonus are determined annually to reflect KPIs which are considered important and relevant to the Group. The Committee believes that using a number of measures provides a balanced incentive. The measures themselves are aligned to, and are designed to support the delivery of, the Group's strategy.

In relation to the LTIP awards, the Committee believes that the combination of EPS and TSR clearly aligns performance to shareholders' interests and the Group's long-term strategy. EPS is a key measure of long-term underlying performance of the Group. TSR is intended to measure management's contribution to the creation of value for shareholders. A revenue-weighted index based on the FTSE All-Share Construction and Materials and FTSE All-Share Support Services indices reflects the Group's mix of business. In future years, the Committee may decide to select other performance measures.

Targets for the annual bonus and the LTIP awards are reviewed before the awards are made, based on a number of internal and external reference points. The Committee intends that targets will be stretching but achievable and will align management's interests with those of shareholders.

Differences from remuneration policy for other employees

Kier's approach to setting annual remuneration is broadly consistent across the Group. Consideration is given to the experience, performance and responsibilities of individuals as well as publicly available external benchmarking data, to the extent considered necessary or appropriate. Certain grades of senior employees are eligible to participate in an annual bonus scheme with similar performance measures to those used for the executive directors. Maximum opportunities and specific performance measures vary by seniority, with business-specific measures applied where appropriate. Senior managers (currently, approximately 250 individuals) are also eligible to participate in the LTIP. The performance measures for each LTIP award cycle are typically the same for all participants (although the rules of the LTIP permit the Committee to grant LTIP awards using different performance measures). Award sizes vary according to seniority and responsibility.

Approach to remuneration on recruitment

External appointment

When recruiting a new executive director from outside the Group, the Committee may make use of all the existing components of remuneration. In addition, the Committee may consider it appropriate to grant an award under an alternative scheme or arrangement in order to facilitate recruitment of an individual, subject to the policy set out below:

Component	Approach
Base salary	The base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and the appointee's current base salary. Where a new appointee has an initial base salary set below the market median, any subsequent adjustment will be managed by the Committee, using (where appropriate) phased increases and subject to the individual's development in the role.
Benefits	New appointees will be eligible to receive benefits in line with the remuneration policy, which may also include (but are not limited to) any necessary expenses relating to expatriation or relocation on recruitment.
SAYE Scheme	New appointees will be eligible to participate on the same terms as all other employees.
AESOP	New appointees will be eligible to participate on the same terms as all other employees.
Pension	New appointees will receive pension contributions of up to 20% of pensionable salary into a defined contribution pension arrangement or an equivalent taxable cash supplement or a combination of both.
Annual bonus	The annual bonus structure described in the remuneration policy will apply to new appointees (including the maximum opportunity), pro rated in the year of joining to reflect the proportion of that year employed. One-third of any bonus earned will be deferred into shares.
LTIP	New appointees may be granted awards under the LTIP of up to 200% of salary, as contemplated by the remuneration policy.
'Buy-out' awards	The Committee may consider it appropriate to grant a 'buy-out' award (with respect to either a bonus or a share-based incentive scheme) under an alternative scheme or arrangement in order to facilitate the recruitment of an individual. When doing so, the Committee may, to the extent required, exercise the discretion available under Listing Rule 9.4.2. Any such 'buy-out' award would have a fair value of no higher than that of the award forfeited. In granting any such award, the Committee will consider relevant factors, including any performance conditions attached to the forfeited awards, the likelihood of those conditions being met and the proportion of the vesting period remaining. When considering any performance conditions, the Committee will, where appropriate, take into account those used in the Company's own incentive arrangements. Where appropriate, the Committee will also consider whether it is necessary to introduce further retention measures for an individual – for example, extended deferral periods.

In determining an appropriate remuneration package, the Committee will take into consideration all relevant factors to ensure that the arrangements are in the best interests of the Company's shareholders.

Internal promotion

When recruiting a new executive director through internal promotion, the Committee will set remuneration in a manner consistent with the policy for external appointments set out above (other than with respect to 'buy-out' awards). Where an individual has contractual commitments made prior to their promotion to executive director level, the Company will continue to honour these commitments. The remuneration of individuals below the Board is typically not greater than for executive directors.

Remuneration Report continued

Service contracts

A summary of the key elements of the executive directors' service agreements (insofar as they relate to remuneration) is as follows:

Term of contract	Summary of provisions
Notice period	12 months' notice (both to and from the executive director).
PILON	Employment can be terminated with immediate effect by undertaking to make a PILON comprising base salary, accrued (but untaken) holiday entitlement, pension contributions or allowance, car allowance and private medical insurance. The Company is entitled to make the PILON on a phased basis, so that any outstanding payment(s) would be reduced or stopped if alternative employment is obtained.
Change of control	There are no payments due upon a change of control, although deferred bonus will be released.
Entitlements on termination	There is no contractual entitlement to notice or any other payments in respect of the period after cessation of employment in circumstances in which the individual is summarily dismissed. In such circumstances, deferred bonus shares will be forfeited and LTIP awards will lapse. If the individual is not a 'bad leaver' (and any 'malus' provision is not applied), deferred bonus shares will be released upon cessation of employment and the position with respect to LTIP awards is as set out under 'Payments for loss of office' below. If not required to take any remaining holiday entitlement during his/her notice period, the executive director will receive a payment for any accrued (but untaken) holiday entitlement.

It is expected that these terms will apply to any service agreements entered into with executive directors during the period in which this remuneration policy will apply.

Payments for loss of office

The Company's policy on payments for loss of office is as follows:

Component	Approach
Annual bonus	Individuals who are considered to be 'good leavers' may be considered for a bonus in relation to the year in which their active employment ceases. Any payment will normally be pro rated for length of service and performance during the year. However, the Committee retains the discretion to review the performance of the individual and the Group in general and, having done so, determine that a different level of bonus payment would be appropriate. Deferred bonus shares will, typically, be released to the individual upon cessation of office, unless the 'malus' provision applies.
LTIP	If an executive director's employment ceases for reasons of death, ill-health, injury, disability, retirement with the agreement of the Company or his employing company ceasing to be a member of the Group or such other circumstances approved by the Committee, outstanding awards are retained. The Committee may also (at its discretion) permit unvested LTIP awards to vest on an accelerated basis or alternatively be retained until the vesting date. Unvested LTIP awards will, subject to Committee discretion, normally be pro rated for length of service during the performance period and will, subject to performance, normally vest at the same time as all other awards in the LTIP award cycle. A 'malus' provision also applies to all LTIP awards granted from 2014. For all other leavers, outstanding LTIP awards automatically lapse, unless the Committee exercises its discretion otherwise (taking into account the factors detailed immediately following this table).
AESOP and SAYE Scheme	The executive directors are subject to the same 'leaver' provisions as all other participants, as prescribed by the rules of the relevant scheme or plan.

Component	Approach
Other	If the Company terminates an executive director's employment by reason of redundancy, the Company will make a redundancy payment to the executive director in line with his service agreement, any applicable collective bargaining agreement and applicable law and regulation. The Company may make a contribution towards an executive director's legal fees for advice relating to a compromise or settlement agreement and may also make other payments connected to the departure – for example, for outplacement services. With respect to any such payments, the Committee will authorise what it considers to be reasonable in the circumstances.
Change of control	Deferred bonus shares will be released, any outstanding LTIP awards may vest early (subject to the Committee's discretion, having taken into account current and forecast progress against the performance condition(s), the proportion of the vesting period which has elapsed and any other factors considered by the Committee to be relevant) and the rules of the AESOP and the SAYE Scheme will apply. No payments are due under the executive directors' service agreements upon a change of control.

Where appropriate, the Committee will oblige the individual to mitigate his/her losses and either offset any alternative remuneration received by the individual against any payments made by the Company for loss of office or reduce any payments to be made by the Company for loss of office to take account of any failure to mitigate when, in the reasonable opinion of the Committee, the individual has failed actively to do so.

In exercising discretion in respect of any of the elements referred to above, the Committee will take into account all factors which it considers to be appropriate at the relevant time. These include, but are not limited to: the duration of the executive director's service; the Committee's assessment of the executive director's contribution to the success of the Group; whether the executive director has worked any notice period or whether a payment in lieu of notice is being made; the need to ensure an orderly handover of duties; and the need to compromise any claims which the executive director may have. Any use of Committee discretion will be disclosed in the relevant annual report on remuneration.

Consideration of employment conditions elsewhere in the Group

Employees are not formally consulted on the executive directors' remuneration and were not consulted during the preparation of the remuneration policy set out above. However, the Group's employee engagement survey provides an opportunity for employees to provide their opinion on their own remuneration arrangements (and also on other matters across the Group).

The Committee takes into account the overall pay and employment conditions of employees within the Group when making decisions on the executive directors' remuneration. Accordingly, the Committee (i) is provided with information about the proposed annual group-wide pay review when setting the executive directors' salaries, (ii) is made aware of the approximate outcomes of annual bonuses and (iii) sets the LTIP performance targets which typically apply to all participants in the annual LTIP award cycle.

Consideration of shareholder views

The views of shareholders, and guidance from shareholder representative bodies, are important to the Committee and provide the context for setting the remuneration of the executive directors. The chair of the Committee and the Chairman of the Board have met a number of the significant shareholders during the 2015 financial year to understand their views.

The Committee intends to review the remuneration policy during the 2016 financial year and will consult with shareholders if it decides that material changes need to be made to it.

Non-executive director remuneration policy

General

The non-executive directors' remuneration (including that of the Chairman) reflects the anticipated time commitment to fulfil their duties. Non-executive directors do not receive bonuses, long-term incentive awards, a pension or compensation on termination of their appointments. The policy on non-executive directors' fees is as follows:

Element and link to strategy	Operation	Opportunity	Performance measures
Fees To attract and retain non-executive directors of the calibre required and with appropriate skills and experience.	Fee levels are reviewed annually with reference to individual experience, the external market and the expected time commitment required of the director. Additional fees are payable to committee chairs and to the Senior Independent Director.	Fees may be increased in line with the outcome of the annual review and will not normally exceed the increase awarded to the wider employee population. Higher increases may be awarded should there be a material change to the requirements of the role, such as additional time commitment. Any changes to fees will be disclosed in the annual report on remuneration for the relevant year.	Continued strong performance.

Recruiting non-executive directors

When recruiting a new non-executive director, the Committee will follow the policy set out in the table above.

Corporate governance
Directors' Report

Introduction
The directors present their annual report and audited financial statements as at, and for the year ended, 30 June 2015.

The Directors' Report and the Strategic Report collectively comprise the 'management report' for the purposes of Disclosure and Transparency Rule 4.1.5R.

Information incorporated by reference
As permitted by legislation, some of the matters required to be included in the directors' report have been incorporated by reference in this report, including certain matters which have been included in the Strategic Report because the Board considers them to be of strategic importance.

Specifically, the following information is incorporated by reference in this report:

Future developments	An indication of the likely future developments of the business of the Company is set out in the Strategic Report on pages 1 to 59 (inclusive).
Greenhouse gas emissions	Information relating to the greenhouse gas emissions of the Company is set out on page 30.
Going concern	The going concern statement is set out on page 59.
Directors	The names of the directors of the Company during the reporting period are set out on page 69. Biographical details of the directors of the Company are shown on pages 64 to 66 (inclusive). Details of directors' interests in the Company's shares are disclosed in the Remuneration Report on page 91.
Corporate governance	A statement on the Group's corporate governance is set out on pages 60 to 63 (inclusive).
Directors' responsibilities	The statement of directors' responsibilities is set out on page 111.
Important events since the end of the financial year	The particulars of the important events affecting the Company and its subsidiaries which have occurred since the end of the financial year are set out in the Strategic Report on pages 1 to 59 (inclusive) and/or note 31 to the consolidated financial statements.

Results and dividends
The Group's profit for the year after taxation and discontinued operations was £5.5m (2014: £10.7m). An interim dividend of 19.2 pence per share* (2014: 18.0 pence per share*), amounting to approximately £13.2m (2014: £12.3m), was paid on 15 May 2015. The directors propose a final dividend of 36.0 pence per share (2014: 39.6 pence per share*), amounting to approximately £34.1m (2014: £27.0m), payable on 27 November 2015 to shareholders on the register of members on 25 September 2015.

* As restated to reflect the bonus element of the rights issue associated with the Mouchel transaction.

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 for its directors and officers to cover certain losses or liabilities to which they may be exposed due to their office.

Political donations
No political donations were made during the year (2014: 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 note 27 to the consolidated financial statements.

Research and development
The Group undertakes research and development activity in creating innovative construction techniques and designs for its projects. The direct expenditure incurred is not readily identifiable, as the investment is typically made 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 Resources and Relationships Report on pages 28 to 31 (inclusive) and the Safety, Health and Environment Committee Report on pages 82 and 83, each of which is incorporated by reference into this report.

Directors' Report continued

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 aim to create a common awareness on the part of employees on matters affecting the performance of the Group. The Group also consults with employees to ascertain their views in relation to decisions which are likely to affect their interests. An example of this is the employee engagement survey which took place during the year.

The Group operates the Kier Group plc 2006 Sharesave Scheme ('the SAYE Scheme') 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.

In addition, as a result of the acquisition of May Gurney, the Group operates the May Gurney Integrated Services PLC Savings Related Share Option Scheme 2007, which is similar to the SAYE Scheme. The existing May Gurney shares in this scheme were exchanged by participants for new options over shares in the capital of the Company.

Share capital

As at 30 June 2015, the issued share capital of the Company comprised a single class of ordinary shares of 1 pence each. At that date, 95,159,247 shares in the capital of the Company were in issue. During the year, 65,358 shares were issued in relation to the scrip dividend alternative, 182,843 shares were issued in connection with the SAYE Scheme and 39,646,692 shares were issued pursuant to a rights issue undertaken by the Company in order to finance the acquisition of MRBL Limited ('Mouchel'). 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 dealing laws); and
- Pursuant to the Listing Rules of the Financial Conduct 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 16 September 2015, the Company had been notified of the following interests in the ordinary share capital of the Company (being voting rights over such share capital), pursuant to Rule 5.1 of the Disclosure and Transparency Rules:

Shareholder	Interest[1]
Standard Life Investments (Holdings) Limited	9.0%
BlackRock, Inc	below 5.0%
Schroders plc	4.8%

1 Subject to rounding.

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 2015, RBC Trustees (Guernsey) Limited ('RBC'), as trustee of the Kier Group 1999 Employee Benefit Trust ('the Trust'), held 307,081 shares (0.32% of the issued share capital of the Company as at that date) on trust for the benefit of the employees of the Group, of which 16,322 shares were allocated to certain directors or senior managers as a result of their annual bonus being satisfied in part by an allocation of deferred shares ('the Deferred Shares'). The Trust was established for the purposes of satisfying awards of shares made to individuals under the Group's remuneration and long-term incentive arrangements.

During the year, RBC either received the dividends in respect of the Deferred Shares or elected to take up the scrip dividend with respect to these shares, as requested by the participants, but waived the dividends payable in respect of the other shares held by it. RBC, in turn, transferred the dividends or allocated additional shares to those directors and senior managers who requested that RBC elected to take up the scrip dividend with respect to their Deferred Shares.

As at 30 June 2015, Computershare Investor Services plc held 1,002,237 shares (representing approximately 1.05% of the issued share capital of the Company as at that date) on trust for the benefit of staff and former staff who are members of the AESOP.

As at 30 June 2015, the trustee of the May Gurney Limited Employee Share Ownership Trust and the trustee of the May Gurney Integrated Services PLC Employee Benefit Trust held, respectively, 226,115 and 148,307 shares in the capital of the Company (together, 374,422 shares representing approximately

0.39% of the issued share capital of the Company as at that date) on trust for the benefit of employees of May Gurney. Both trusts were established for the purposes of satisfying awards of shares to individuals under May Gurney's remuneration and long-term incentive arrangements. During the year, the trustees waived the dividends payable in respect of these shares.

Voting

Subject to any terms upon which the relevant shares may have been issued or to which they 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 holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority will 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 AGM of the Company after his/her appointment and is then eligible to stand for election.

Pursuant to the Articles, at every AGM of the Company, one-third of the directors who are subject to the requirement to retire by rotation (not including any director who was appointed by the Board and is standing for election) will retire from office and may offer themselves for re-election by the members. The directors to retire by rotation will be those who have been longest in office since their last election. However, at the forthcoming AGM 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.

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 will be vacated if:

- 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;
- 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;
- The director ceases to be a director by virtue of the Companies Acts or becomes prohibited by law from being a director;
- The director receives written notice from not less than three-quarters of the other directors removing the director from office; or
- 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.

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 AGM on 13 November 2014 to allot shares in the Company in accordance with section 551 of the Companies Act 2006 (i) up to an aggregate nominal amount of £184,664 and (ii) up to an aggregate nominal amount of £369,328 in connection with a rights issue. The directors were also granted authority to allot shares non-pre-emptively and wholly for cash up to an aggregate nominal amount of £27,700. In addition, at the AGM held in 2013, an ordinary resolution was approved which grants the directors the authority to continue to offer the scrip dividend alternative. In accordance with the requirements of investor protection committees, this authority is renewed every five years.

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 AGM and does not propose to do so at the forthcoming AGM.

Corporate governance
Directors' Report continued

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 £30m term facility agreement dated 11 January 2013 entered into with Lloyds TSB Bank plc;
- The Company's £380m revolving credit facility dated 22 April 2015 entered into with HSBC Bank plc, Lloyds Bank plc, The Royal Bank of Scotland plc, Abbey National Treasury Services plc, Barclays Bank PLC and National Westminster Bank plc (together with the £30m facility agreement, 'the Facility Agreements');
- The Company's £45m and US$28m note purchase agreement dated 20 December 2012 ('the 2012 Note Purchase Agreement');
- The Company's £47m and US$116m note purchase agreement dated 20 November 2014 (together with the 2012 Note Purchase Agreement, 'the Note Purchase Agreements'); and
- Certain of the Group's employee share schemes.

Each of the Facility Agreements includes a provision under which, 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 relevant facility are immediately due and payable by the Company.

Each of the Note Purchase Agreements includes a provision under which, in the event of a change of control of the Company, the Company is obliged to offer to prepay the notes issued pursuant to the agreement.

Outstanding options granted under the SAYE Scheme and the May Gurney Integrated Services PLC Savings Related Share Option Scheme 2007 may be exercised within a period of six months from a change of control of the Company following a takeover bid (or will lapse upon the expiry of such a period).

Awards granted under the Group's long-term incentive plan (which is described in the Remuneration Report) 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.

Branches

Because the Group is a global business, it has activities operated through branches in certain jurisdictions.

Auditor

The Board has decided that PricewaterhouseCoopers LLP will be proposed as the Group's auditor for the financial year ending 30 June 2016 and a resolution relating to this appointment will be tabled at the forthcoming AGM.

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.

AGM

The Company's 2015 AGM will be held at 12 noon on 12 November 2015 at the Andaz Hotel, 40 Liverpool Street, London, EC2M 7QN.

The Directors' Report was approved by the Board on 16 September 2015 and signed on its behalf by:

Hugh Raven
Company Secretary
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Corporate governance
Statement of directors' responsibilities

Introduction
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 European Union ('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.

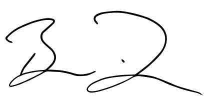
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement
Each of the directors of Kier Group plc, whose names and functions are set out on pages 64 to 66 (inclusive), confirms that to the best of his or her knowledge:

- The financial statements contained in this annual report and accounts, 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;
- The management report contained in this annual report and accounts 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; and
- This annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Signed on behalf of the Board by:

Haydn Mursell
Chief Executive



Bev Dew
Finance Director

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

Report on the financial statements

Our opinion

In our opinion:

- Kier Group plc’s Group financial statements and parent company financial statements (‘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 2015 and of the Group’s profit and cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with United Kingdom 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.

What we have audited

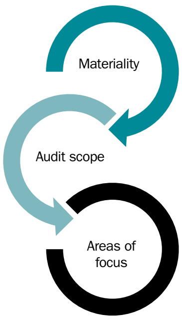
Kier Group plc’s financial statements comprise:

- The Consolidated balance sheet as at 30 June 2015;
- The Company balance sheet as at 30 June 2015;
- The Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- The Consolidated cash flow statement for the year then ended;
- The Consolidated statement of changes in equity for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our audit approach

Overview



- Overall Group materiality: £4.3m which represents 5% of consolidated profit before tax excluding non-underlying items.

- We conducted audit work across all four of the Group’s divisions, and paid particular attention to the accounting for the acquisition on 8 June 2015 of Mouchel. The divisions where we performed our audit work accounted for 95% of Group revenues.

- Acquisition accounting for Mouchel.
- Valuation of land and properties.
- Accounting for long-term contracts – including profit recognition, work in progress and provisioning.
- Accounting for adjustments to underlying profit.
- Assessment of carrying value of goodwill.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (‘ISAs (UK & Ireland)’).

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as ‘areas of focus’ in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Acquisition accounting for Mouchel Refer to page 80 (Risk Management and Audit Committee Report), page 123 (significant accounting policies) and page 158 (notes). The Group acquired Mouchel on 8 June 2015 for £260.6m consideration, funded through a rights issue. Accounting for the acquisition required a fair value exercise to assess the assets and liabilities acquired, including valuing any separately identifiable intangible assets, both of which can be a particularly subjective process. **Fair value adjustments** Management recorded £15.1m of fair value adjustment provisions following its analysis of net assets acquired. These reflect its best estimate of certain exposures in Mouchel identified during the due diligence process that were not previously recognised in the balance sheet. **Valuation of identifiable intangibles** Management identified £141.0m of intangible assets in respect of Mouchel's customer contracts, based on the work performed by an external expert. The value of these is calculated by discounting the income stream from Mouchel's contractual customers. The determination of the discount rate applied to the contractual customer income was particularly judgemental, as it requires the calculation of a risk adjusted weighted average cost of capital.	**Fair value adjustments** We assessed the completeness and quantum of adjustments made by management against our own expectations, formed from review of the due diligence reports prepared during the acquisition. We determined that management's analysis appropriately reflects the fair value exercise based on our understanding of Mouchel's particular circumstances and our knowledge and experience of the industry. **Valuation of identifiable intangible assets** We reviewed the work performed on the purchase price allocation by management's external expert. In doing so we evaluated the professional competence and objectivity of that expert and challenged the following: • In relation to the customer contracts, we obtained third-party documentation for significant contracts and checked that these were either existing agreements or sufficiently firm future orders. • We challenged senior operational, commercial and financial management on the contract assumptions and judgements, such as profitability, claims and cash flow timings, used to determine the carrying amount of the fair value adjustments. • We sensitised the discount rate and other key inputs and assumptions to ascertain the extent of change that would be required for the fair value to be materially misstated. Based on the work done we have determined that the relevant intangible assets had been identified and valued appropriately.
Valuation of land and properties Refer to page 80 (Risk Management and Audit Committee Report), page 126 (significant accounting policies) and page 146 (notes). Inventory is stated at the lower of cost and net realisable value (ie the forecast selling price less the remaining costs to build and sell). An assessment of the net realisable value of inventory is carried out at each balance sheet date and is dependent upon management's estimate of forecast selling prices and build costs (by reference to current prices), which may require significant judgement. The Group holds inventory of £284m within the Residential division, which comprises the Group's land held for residential development (£117m) and residential work in progress (£167m) where building work has commenced. We focused our work on those sites where there is no immediate intention of development as there is a risk that they are valued above their recoverable amount. Therefore a change in the Group's forecast estimate of sales price and build cost could have a material impact on the carrying value of inventories in the Group's financial statements.	We reviewed the property-specific development appraisals supporting the carrying values and challenged the key assumptions underlying these appraisals as follows: • We reviewed management's expected build cost per square foot by comparing to the build costs for similar units on other sites and where there were differences, validating explanations against third-party confirmations including quantity surveyor cost estimates, correspondence with suppliers or comparable properties on other sites; • We challenged management on their intention to develop these sites; and • We challenged management's forecast sales prices to supporting third-party evidence from management's external sales agents and by comparing the forecast sales price of a sample of sales prices achieved and the list prices of comparable assets as published by estate agents. We did not encounter any issues through our audit procedures that indicated the land or properties tested were impaired.

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

Area of focus | **How our audit addressed the area of focus**

Accounting for long-term contracts – including profit recognition, work in progress and provisioning

Refer to page 81 (Risk Management and Audit Committee Report) and page 124 (significant accounting policies).

The Group has significant long-term contracts in both the Construction and Services divisions. The recognition of profit on construction and long-term services contracts in accordance with IAS11 is based on the stage of completion of contract activity. This is assessed by reference to the proportion of contract costs incurred for the work performed at the balance sheet date relative to the estimated total costs of the contract at completion.

Profit on contracts is a significant risk for our audit because of the judgement involved in preparing suitable estimates of the forecast costs and revenue on contracts. An error in the contract forecast could result in a material variance in the amount of profit or loss recognised to date and therefore also in the current period.

These judgements include the expected recovery of costs arising from the following: variations to the contract requested by the customer, compensation events, and claims made against the contractor for delays or other additional costs for which the customer is liable. The inclusion of these amounts in the contract forecast where they are not recoverable could result in a material error in the level of profit or loss recognised by the Group.

How our audit addressed the area of focus

We focused our work on those contracts with the greatest estimation uncertainty over the final contract values and therefore profit outcome. These in particular included the forecast positions on major infrastructure projects such as Crossrail in the UK and MTR in Hong Kong.

We challenged the judgements applied in management's forecasts, in particular the key assumptions, which included the expected recovery of variations, claims and compensation events included in the forecast, and the historical financial performance and forecast out-turn against budget of other contracts of a similar nature and size and industry knowledge.

We inspected correspondence and meeting minutes with customers concerning variations, claims and compensation events, and obtained third-party assessments of these from legal or technical experts contracted by the Group, if applicable, to assess whether this information was consistent with the estimates made.

We inspected selected signed contracts for key clauses to identify relevant contractual mechanisms such as the sharing of cost overruns or efficiencies with the customer, contractual damages and success fees and assess whether these key clauses have been appropriately reflected in the amounts included in the forecasts.

We inspected correspondence with insurers relating to recognised insurance claims as well as assessments of these undertaken by the insurers and Group's legal experts where applicable to assess whether this information supported the position taken on the contract.

We did not identify any issues where the judgements made were materially inappropriate.

Accounting for adjustments to underlying profit

Refer to page 81 (Risk Management and Audit Committee Report), page 124 (significant accounting policies) and page 131 (notes).

In order to give a better understanding of the underlying performance of the business, management has presented a view of the underlying results of the Group, with separate disclosure of 'non-underlying items' consisting of the following:

- £8.4m of restructuring charges relating to a significant internal reorganisation and post-acquisition integration costs;
- £13.5m of acquisition costs relating to Mouchel;
- £6.3m in respect of the closure of the Kier Group Pension Scheme;
- £3.4m relating to the disposal of Fleet & Passenger Services;
- £14.8m of intangible amortisation and discount unwind on acquired businesses; and
- £22.9m in respect of the write-down of the UK mining business held for sale, presented in discontinued operations.

The determination of which items are classified as 'non-underlying' is subject to judgement and therefore users of the accounts could be misled if amounts are not classified appropriately or presented consistently.

We also considered the risk of one-off gains during the year not being properly identified and therefore presented inappropriately within underlying profit.

How our audit addressed the area of focus

We considered the appropriateness of the adjustments made to statutory profit before tax to derive underlying performance. In order to do this we considered:

- The Group's accounting policy on exceptional and non-underlying items;
- The application of IFRS, in particular IAS1; and
- Recent pronouncements by the Financial Reporting Council on this matter, particularly the Practice Note issued in December 2013.

We challenged management on the appropriateness of the classification of each item, being mindful that classification should be balanced between gains and losses, the basis for the classification clearly disclosed and applied consistently from one year to the next.

Our work highlighted certain items that management had classified as non-underlying which we considered to be more judgemental than others. These included the restructuring charges of £8.4m. Having assessed the nature of the individual components of the restructuring charges, we were satisfied with their presentation as non-underlying.

We assessed the nature of certain material non-recurring gains during the year impacting underlying profit before tax and challenged management as to whether these should be identified within non-underlying items. The key judgement in this area surrounds the recognition of profit on disposal of certain property development transactions and joint ventures. We have accepted management's viewpoint that these are normal property transactions consistent with underlying activity of a property development business.

Having considered the nature and quantum of these items, overall we were satisfied that the presentation of non-underlying and exceptional items in the financial statements for the year ended 30 June 2015 is materially appropriate.

Area of focus	How our audit addressed the area of focus
Assessment of carrying value of goodwill Refer to page 81 (Risk Management and Audit Committee Report), page 124 (significant accounting policies) and page 141 (notes). As detailed in note 12 of the financial statements, the Group's key cash-generating units ('CGUs') are Construction, Services, Residential and Property. The majority of the Group's goodwill is in relation to the acquisition of Mouchel (£301.3m) in June 2015 and May Gurney (£194.7m) in August 2013. The majority (97%) of goodwill recognised from the acquisition of May Gurney is allocated to the Services CGU with the remainder (3%) allocated to the Construction CGU. We considered the carrying value of goodwill recognised in respect of Mouchel as part of our work on the acquisition, although due to the timing of the transaction, this was not considered a risk of impairment. Management tests goodwill for impairment annually, with reference to value in use which is measured by the present value of the cash flow forecasts expected to be derived by the respective CGUs. The services industry continues to experience challenging margins due to increased costs and more competitive pricing in the market. Therefore there is a risk that sufficient cash flows will not be generated within the Services CGU to support the carrying amount of goodwill. Due to its size, we did not consider the Construction, Property or Residential CGUs to be areas of significant focus.	As part of our audit procedures, we corroborated the justification of the CGUs defined by management, particularly Services, by reviewing the financial information that management uses to measure the performance of that business. We also tested the principles and integrity of the Group's discounted cash flow model that supports the value in use of the CGUs in order to satisfy ourselves that the methodology applied in the annual impairment assessments was in line with the requirements of IAS36, and that the assumptions underpinning the model were appropriate. More specifically, we challenged: • We agreed key inputs such as contract margin and profitability to underlying agreements, our knowledge of the Group and industry and historical outcomes. • We assessed the other key assumptions management applied in these models (discount rate, growth rate and inflation), remaining sceptical of explanations and obtaining supporting evidence for key assertions, including comparing to available external data where available. • We also reviewed management's sensitivity analysis and considered further realistic sensitivity to all key assumptions and underlying cash flows. We did not identify any issues with management's key assumptions based on our review of supporting evidence, management's and our own sensitivity analyses performed. There was significant headroom calculated by management over the carrying amount of the Services CGU, and therefore we were satisfied that the goodwill is not impaired. We also tested whether the disclosures were in line with applicable accounting standards and no issues were identified.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured across four divisions, being Property, Residential, Construction and Services (including Mouchel). The Group financial statements are a consolidation of reporting units that make up the four divisions, together with its central services function.

Due to the timing of the acquisition, Mouchel did not significantly impact the Group's underlying profit before tax. We therefore focused our audit procedures on the balance sheet, which was largely addressed through our work on the accounting for the acquisition.

As the majority of the Group's revenues, trading profits and operating assets are in companies incorporated in the UK, we are satisfied that we obtain appropriate audit coverage over the Group's Income statement, Balance sheet and Cash flow statement through our statutory audit work on the UK companies, which is performed at the same time as the audit of the Group. The divisions where we performed our audit work accounted for 95% of the Group's revenues.

In addition, we performed specified audit procedures in the Construction International businesses in Hong Kong, Dubai and Jamaica where our work was focused on particular material contracts where we determined there to be heightened risk of material misstatement.

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

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£4.3m
How we determined it	5% of consolidated profit before tax excluding non-underlying items, as defined by management in Note 1 to the financial statements.
Rationale for benchmark applied	Based on our professional judgement, we determined materiality by applying a benchmark of 5% of consolidated profit before tax excluding non-underlying items. We believe that underlying profit before tax is the most appropriate measure as it eliminates any disproportionate effect of exceptional charges and provides a consistent year-on-year basis for our work.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.2m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 59, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and parent company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and parent company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- The information given in the Strategic Report and 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 as set out on page 63 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion: • Information in the annual report is: — materially inconsistent with the information in the audited financial statements; or — apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and parent company acquired in the course of performing our audit; or — otherwise misleading.	We have no exceptions to report arising from this responsibility.
• The statement given by the directors on page 72, in accordance with provision C.1.1 of the UK Corporate Governance Code ('the Code'), that they consider the annual report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and parent company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and parent company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• The section of the annual report on page 76, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- We have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from these responsibilities.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the parent company's compliance with the 10 provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 111, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the directors; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jonathan Hook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

1 Embankment Place
London
WC2N 6RH

16 September 2015

Consolidated income statement
For the year ended 30 June 2015

	Notes	2015 Underlying items[1] £m	2015 Non-underlying items (note 4) £m	2015 Total £m	2014[2] Underlying items[1] £m	2014[2] Non-underlying items (note 4) £m	2014[2] Total £m
Continuing operations							
Revenue							
Group and share of joint ventures	2	**3,351.2**	**–**	**3,351.2**	2,937.8	–	2,937.8
Less share of joint ventures	2	**(75.3)**	**–**	**(75.3)**	(30.9)	–	(30.9)
Group revenue		**3,275.9**	**–**	**3,275.9**	2,906.9	–	2,906.9
Cost of sales		**(2,993.0)**	**–**	**(2,993.0)**	(2,653.0)	(3.5)	(2,656.5)
Gross profit/(loss)		**282.9**	**–**	**282.9**	253.9	(3.5)	250.4
Administrative expenses		**(201.9)**	**(42.8)**	**(244.7)**	(174.3)	(49.5)	(223.8)
Share of post-tax results of joint ventures	14	**7.9**	**–**	**7.9**	1.6	–	1.6
Profit on disposal of joint ventures	30e	**14.8**	**–**	**14.8**	6.1	–	6.1
Profit/(loss) from operations	2	**103.7**	**(42.8)**	**60.9**	87.3	(53.0)	34.3
Finance income	5	**1.7**	**–**	**1.7**	2.2	–	2.2
Finance costs	5	**(19.5)**	**(3.6)**	**(23.1)**	(15.8)	(5.3)	(21.1)
Profit/(loss) before tax	2	**85.9**	**(46.4)**	**39.5**	73.7	(58.3)	15.4
Taxation	9a	**(16.9)**	**6.9**	**(10.0)**	(13.5)	9.8	(3.7)
Profit/(loss) for the year from continuing operations		**69.0**	**(39.5)**	**29.5**	60.2	(48.5)	11.7
Discontinued operations							
Loss for the year from discontinued operations (attributable to equity holders of the parent company)	19	**(2.2)**	**(21.8)**	**(24.0)**	(1.0)	–	(1.0)
Profit/(loss) for the year		**66.8**	**(61.3)**	**5.5**	59.2	(48.5)	10.7
Attributable to:							
Owners of the parent		**65.7**	**(61.3)**	**4.4**	58.5	(48.5)	10.0
Non-controlling interests		**1.1**	**–**	**1.1**	0.7	–	0.7
		66.8	**(61.3)**	**5.5**	59.2	(48.5)	10.7
Basic earnings per share							
– From continuing operations	11	**96.0p**	**(55.8)p**	**40.2p**	87.5p[3]	(71.3)p[3]	16.2p[3]
– From discontinued operations	11	**(3.1)p**	**(30.8)p**	**(33.9)p**	(1.5)p[3]	–	(1.5)p[3]
Diluted earnings per share							
– From continuing operations	11	**95.6p**	**(55.6)p**	**40.0p**	86.9p[3]	(70.8)p[3]	16.1p[3]
– From discontinued operations	11	**(3.1)p**	**(30.8)p**	**(33.9)p**	(1.5)p[3]	–	(1.5)p[3]

1 Stated before non-underlying items (see note 4).
2 Represented to classify the Group's UK mining activities as discontinued (see note 19).
3 Restated to reflect the impact of the bonus element of the rights issue associated with the Mouchel transaction (see note 24).

Consolidated statement of comprehensive income
For the year ended 30 June 2015

	Notes	2015 £m	2014 £m
Profit for the year		5.5	10.7
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements on cash flow hedging instruments	14	0.7	15.1
Deferred tax on share of joint venture fair value movements on cash flow hedging instruments	9c	(0.2)	(3.6)
Fair value movements on cash flow hedging instruments		0.2	(1.7)
Deferred tax on fair value movements on cash flow hedging instruments	9c	–	0.3
Foreign exchange losses on long-term funding of foreign operations		0.9	–
Foreign exchange translation differences		(0.2)	(4.0)
Total items that may be reclassified subsequently to the income statement		1.4	6.1
Items that will not be reclassified to the income statement			
Re-measurement of defined benefit liabilities	8	(34.0)	(18.7)
Deferred tax on actuarial losses on defined benefit liabilities	9c	6.8	(4.9)
Deferred tax on provisions	9c	–	(1.9)
Total items that will not be reclassified to the income statement		(27.2)	(25.5)
Other comprehensive loss for the year		(25.8)	(19.4)
Total comprehensive loss for the year		(20.3)	(8.7)
Attributable to:			
Equity holders of parent		(21.4)	(9.4)
Non-controlling interests – continuing operations		1.1	0.7
		(20.3)	(8.7)

Total comprehensive income attributable to equity shareholders arises from:		
Continuing operations	2.6	(8.4)
Discontinued operations	(24.0)	(1.0)
	(21.4)	(9.4)

Consolidated statement of changes in equity
For the year ended 30 June 2015

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Merger reserve £m	Attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 30 June 2013	0.4	63.3	2.7	102.0	(13.0)	0.4	–	**155.8**	2.5	**158.3**
Profit for the year	–	–	–	10.0	–	–	–	**10.0**	0.7	**10.7**
Other comprehensive (loss)/income	–	–	–	(25.5)	10.1	(4.0)	–	**(19.4)**	–	**(19.4)**
Dividends paid	–	–	–	(37.3)	–	–	–	**(37.3)**	(0.2)	**(37.5)**
Issue of own shares	0.2	10.4	–	–	–	–	183.6	**194.2**	–	**194.2**
Purchase of own shares	–	–	–	(1.1)	–	–	–	**(1.1)**	–	**(1.1)**
Share-based payments	–	–	–	4.0	–	–	–	**4.0**	–	**4.0**
Tax on share-based payments	–	–	–	0.5	–	–	–	**0.5**	–	**0.5**
Transfers	–	–	–	(1.2)	–	–	1.2	**–**	–	**–**
At 30 June 2014	0.6	73.7	2.7	51.4	(2.9)	(3.6)	184.8	**306.7**	3.0	**309.7**
Profit for the year	–	–	–	4.4	–	–	–	**4.4**	1.1	**5.5**
Other comprehensive (loss)/income	–	–	–	(27.2)	0.7	0.7	–	**(25.8)**	–	**(25.8)**
Dividends paid	–	–	–	(40.2)	–	–	–	**(40.2)**	(2.3)	**(42.5)**
Issue of own shares	0.4	334.8	–	–	–	–	–	**335.2**	–	**335.2**
Share-based payments	–	–	–	3.4	–	–	–	**3.4**	–	**3.4**
Tax on share-based payments	–	–	–	(0.1)	–	–	–	**(0.1)**	–	**(0.1)**
Transfers[1]	–	–	–	50.0	–	–	(50.0)	**–**	–	**–**
At 30 June 2015	**1.0**	**408.5**	**2.7**	**41.7**	**(2.2)**	**(2.9)**	**134.8**	**583.6**	**1.8**	**585.4**

[1] See note 9 to the Company only accounts on page 163.

Consolidated balance sheet
At 30 June 2015

	Notes	2015 £m	2014[1] £m
Non-current assets			
Intangible assets	12	**776.7**	323.8
Property, plant and equipment	13	**121.2**	192.4
Investments in and loans to joint ventures	14	**79.4**	40.9
Deferred tax assets	15	**11.3**	1.8
Trade and other receivables	18	**31.4**	23.5
Non-current assets		**1,020.0**	582.4
Current assets			
Inventories	16	**737.8**	470.4
Trade and other receivables	18	**535.3**	586.4
Corporation tax receivable		**–**	7.5
Cash and cash equivalents	20	**254.0**	112.4
Current assets		**1,527.1**	1,176.7
Assets held for sale as part of a disposal group	19	**193.9**	72.8
Total assets		**2,741.0**	1,831.9
Current liabilities			
Overdraft	20	**–**	(39.8)
Finance lease obligations	21	**(14.9)**	(27.6)
Other financial liabilities	27	**–**	(0.1)
Trade and other payables	22	**(1,314.3)**	(982.7)
Corporation tax payable		**(12.7)**	–
Provisions	23	**(13.1)**	(27.9)
Current liabilities		**(1,355.0)**	(1,078.1)
Non-current liabilities			
Borrowings	20	**(394.8)**	(195.4)
Finance lease obligations	21	**(25.7)**	(59.4)
Other financial liabilities	27	**(1.5)**	(2.0)
Trade and other payables	22	**(11.4)**	(9.3)
Retirement benefit obligations	8	**(153.6)**	(59.8)
Provisions	23	**(45.6)**	(55.8)
Non-current liabilities		**(632.6)**	(381.7)
Liabilities held for sale as part of a disposal group	19	**(168.0)**	(62.4)
Total liabilities		**(2,155.6)**	(1,522.2)
Net assets	2	**585.4**	309.7
Equity			
Share capital	24	**1.0**	0.6
Share premium		**408.5**	73.7
Capital redemption reserve		**2.7**	2.7
Retained earnings		**41.7**	51.4
Cash flow hedge reserve	24	**(2.2)**	(2.9)
Translation reserve	24	**(2.9)**	(3.6)
Merger reserve	24	**134.8**	184.8
Equity attributable to owners of the parent		**583.6**	306.7
Non-controlling interests		**1.8**	3.0
Total equity		**585.4**	309.7

[1] Represented to disclose assets held for sale separately as assets held for sale as part of a disposal group and liabilities held for sale as part of a disposal group (see note 19).

The financial statements on pages 118 to 160 were approved by the Board of directors on 16 September 2015 and were signed on its behalf by:

Haydn Mursell
Director

Bev Dew
Director

Consolidated cash flow statement
For the year ended 30 June 2015

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Profit before tax including discontinued operations		**13.7**	14.8
Non-underlying items	4	**54.5**	42.2
Net finance cost	5	**21.4**	20.2
Share of post-tax trading results of joint ventures	14	**(7.9)**	(1.6)
Normal cash contributions to pension fund (less than)/in excess of pension charge		**(0.1)**	1.3
Equity settled share-based payments charge	25	**3.4**	4.0
Negative goodwill recognised, amortisation and impairment of intangible assets		**13.6**	10.8
Other non-cash items		**(4.6)**	–
Depreciation charges	13	**28.9**	41.5
Profit on disposal of joint ventures	30e	**(14.8)**	(6.1)
Loss/(profit) on disposal of property, plant and equipment		**2.1**	(4.5)
Operating cash flows before movements in working capital		**110.2**	122.6
Special contributions to pension fund		**(18.7)**	(8.0)
Increase in inventories		**(205.5)**	(7.0)
Decrease/(increase) in receivables		**88.0**	(156.3)
Increase in payables		**192.8**	96.3
Decrease in provisions		**(28.3)**	(31.7)
Cash inflow from operating activities before non-underlying items		**138.5**	15.9
Cash outflow from non-underlying items		**(18.8)**	(35.6)
Cash inflow/(outflow) from operating activities		**119.7**	(19.7)
Dividends received from joint ventures	14	**3.5**	0.3
Interest received		**1.7**	2.2
Income taxes (paid)/received		**(3.5)**	11.3
Net cash inflow/(outflow) from operating activities		**121.4**	(5.9)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**2.0**	6.0
Proceeds from sale of joint ventures	30e	**13.9**	17.3
Purchases of property, plant and equipment		**(19.8)**	(48.2)
Purchase of intangible assets	12	**(22.6)**	(6.2)
Net investment in assets held for resale		**(12.6)**	(4.0)
Acquisition of subsidiaries	30a	**(262.6)**	(65.6)
Investment in joint ventures		**(35.6)**	(11.7)
Cash/(overdraft) acquired	30b	**32.2**	(16.8)
Net cash used in investing activities before non-underlying disposal proceeds		**(305.1)**	(129.2)
Non-underlying proceeds on disposal of plant business net of disposal costs		**–**	4.2
Net cash used in investing activities		**(305.1)**	(125.0)
Cash flows from financing activities			
Issue of shares	24	**334.1**	2.2
Purchase of own shares		**–**	(1.1)
Interest paid		**(15.6)**	(14.2)
Cash outflow incurred raising finance		**(2.6)**	–
Inflow from finance leases on property, plant and equipment	21	**16.9**	40.3
Inflow from new borrowings		**199.9**	102.9
Finance lease repayments	21	**(32.2)**	(29.6)
Repayment of borrowings		**(94.0)**	(20.0)
Dividends paid to equity holders of the parent		**(39.1)**	(29.1)
Dividends paid to minority interests		**(2.3)**	(0.2)
Net cash generated by financing activities		**365.1**	51.2
Increase/(decrease) in cash, cash equivalents and overdraft		**181.4**	(79.7)
Opening cash, cash equivalents and overdraft		**72.6**	152.3
Closing cash, cash equivalents and overdraft	20	**254.0**	72.6

Notes to the consolidated financial statements
For the year ended 30 June 2015

1 Significant accounting policies
Kier Group plc ('the Company') is a company domiciled in the United Kingdom ('UK') and incorporated in England and Wales. The consolidated financial statements of the Company for the year ended 30 June 2015 comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in joint arrangements.

The consolidated financial statements were approved by the directors on 16 September 2015.

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 European Union ('IFRS') and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards issued by the International Accounting Standards Board ('IASB') and interpretations issued by the International Financial Reporting Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 July 2014.

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 161 to 163.

Basis of preparation
The Group has considerable financial resources, long-term contracts and a diverse range of customers and suppliers across its business activities.

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 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.

The following new standards and amendments to standards are effective for the financial year ended 30 June 2015 onwards:

IFRS10	Consolidated Financial Statements
IFRS11	Joint Arrangements
IFRS12	Disclosure of Interests in Other Entities
IAS27	Consolidated and Separate Financial Statements
IAS28	Investments in Associates and Joint Ventures
IAS36	Impairment of Assets (Recoverable amount disclosures for non-financial assets)

The following new standards and amendments to standards have been issued, and will take effect for periods starting after 1 January 2018 and 1 January 2017 respectively:

IFRS9	Financial Instruments
IFRS15	Revenue from Contracts with Customers

The directors are considering the impact of these new standards and interpretations in future periods.

IFRS15 will replace IAS18 'Revenue' and IAS11 'Construction Contracts'. It will become effective for accounting periods on or after 1 January 2017 at the earliest and will therefore be applied for the first time to the Group accounts in 30 June 2018; the IASB has indicated that early adoption will be permitted. The Group has begun a systematic review of all existing major contracts to ensure that the impact and effect of the new standard is fully understood and changes to the current accounting procedures are highlighted and acted upon in advance of the effective date.

Other than the impact of IFRS15 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 earlier than required.

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

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 2015. 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.

If a business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurements are recognised in profit or loss.

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 result is negative, a 'bargain purchase' gain is recognised immediately in profit or loss.

Provisional fair values allocated at a reporting date are finalised within 12 months of the acquisition date.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. 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. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement unless the contingent consideration is classified as equity, in which case settlement is accounted for within reserves.

Notes to the consolidated financial statements
For the year ended 30 June 2015 continued

1 Significant accounting policies continued
Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(b) Joint arrangements
A joint arrangement 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 joint ventures 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, following which no further losses are recognised. 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.

From time to time the Group undertakes contracts jointly with other parties. These fall under the category of joint operations as defined by IFRS11. In accordance with IFRS11, the Group accounts for its own share of sales, profits, assets, liabilities and cash flows measured according to the terms of the agreements.

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.

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.

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

Contract rights	Over the remaining contract life
Computer software	3–7 years

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

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

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

Non-underlying items[1]
Certain items are presented separately in the consolidated income statement as non-underlying items where, in the judgement of the directors, they need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance.

Examples of material items which may give rise to disclosure as non-underlying items include gains or losses on the disposal of businesses, costs of restructuring and reorganisation of existing businesses, integration of newly acquired businesses, asset impairments and acquisition transaction costs. They also include reclassification of provisions in respect of such items.

Amortisation of acquired intangible assets is also treated as a non-underlying item so that the underlying profit of the Group can be measured on a comparable basis from period to period.

These are examples, and from time to time it may be appropriate to disclose further items as non-underlying in order to highlight the underlying performance of the Group.

Underlying operating profit is one of the key measures used by the Board to monitor the Group's performance.

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

The general principles for profit recognition are as follows:

- Profits on short duration contracts 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;
- 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 and only to the extent that there is reasonable certainty of recovery; and
- Variations and compensation events are included in forecasts to completion when it is considered highly probable that they will be recovered.

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 to the certified value, in which case the internal value is used.

(b) Services

Revenue and profit from services rendered, which include facilities management, street cleaning and recycling, is recognised as and when the service is provided.

Where revenue that has been recognised is found not to be recoverable due to a dispute with the client, these amounts are charged against the revenue recognised. Where non-recovery is as a result of inability of a client to meet its obligations, these amounts are charged to administrative expenses.

Unbilled revenue is the difference between the revenue recognised and the amounts actually invoiced to customers. Where invoicing exceeds the amount of revenue recognised these amounts are included in deferred income.

(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.

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 completion of the construction and development work. If a development is sold during construction but prior to completion, revenue and profit are recognised at the time of sale in line with the percentage completion of the construction and development works at the time of sale and thereafter in line with the percentage of completion of the construction and development works.

(e) Private Finance Initiative ('PFI') service concession agreements

Revenue relating to construction or upgrade services under a service concession agreement 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 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 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, including expenditure that is directly attributable to the acquisition of the items, less the estimated residual value, and the estimated economic lives of the assets concerned. Freehold land is not depreciated. Other tangible assets are depreciated to residual values in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

Freehold land and buildings	25–50 years
Leasehold buildings and improvements	Period of lease
Plant and equipment (including 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.

The Group accounts for defined benefit obligations in accordance with IAS19 (Revised). Obligations are measured at discounted present value while plan assets are measured at fair value. The operating and financing costs of such plans are recognised separately in the income statement; current service costs are spread systematically over the lives of employees and financing costs are recognised in full in the period in which they arise. Re-measurements of the net defined pension liability, including actuarial gains and losses, are recognised immediately in other comprehensive income.

1 Significant accounting policies continued

The net finance cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in finance costs in the income statement.

Where the calculations result in a surplus to the Group, the recognised asset is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan.

(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 Long Term Incentive Plan ('LTIP') schemes. The fair value of these schemes at the date of award is calculated using the Black-Scholes model apart from the total shareholder return element of the LTIP which is based on a stochastic 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 period. The scheme awards to senior employees a number of shares which will vest after three years if particular criteria are met. The cost of the scheme is based on the fair value of the shares at the date the options are granted.

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 with the original cost.

Finance income and costs

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

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

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 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 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 deferred tax provision 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 other comprehensive income. All other translation differences are reflected in the income statement.

Mining assets

Opencast expenditure incurred prior to the commencement of operating an opencast site is capitalised and the cost less the residual value is depreciated over the 'coaling life' of the site on a coal extraction basis.

The cost of restoration is recognised as a provision as soon as the restoration liability arises. 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 finance 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 to the estimated restoration costs or discount rate, the present value of the change is recognised as a change in the restoration provision with a corresponding change in the cost of the tangible asset until the asset is fully depreciated when the remaining adjustment is taken to the income statement.

Inventories

Inventories, 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 as 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.

Trade receivables do not carry interest and are stated at their initial fair 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 where legal right of set off exists. Bank overdrafts are included within financial liabilities in current liabilities in the balance sheet.

(c) Bank and other borrowings

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

(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 re-measured in future periods at their fair value. The method of recognising the resulting change in fair value depends 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 other comprehensive income. 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 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.

(f) Government grants

Government grant income is recognised at the point that there is reasonable assurance that the Group will comply with the conditions attached to it, and that the grant will be received.

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 property development, private housing sales, construction contracts and services contracts require forecasts to be made of the outcome of long-term contracts which require assessments and judgements to be made on the recovery of pre-contract costs, changes in the scope of work, contract programmes, maintenance and defects liabilities and changes in costs.

(b) Valuation of land and work in progress

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

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

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

1 Significant accounting policies continued

(c) Determination of fair values of identifiable net assets on acquisitions
On the acquisition of a business, fair values are attributed to the identifiable assets and liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is subsumed into goodwill.

(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.

(e) Provisions
Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the amount and timing of liabilities judgement is applied and re-evaluated at each reporting date.

(f) Recoverable value of recognised receivables
The recoverability of trade and other receivables is regularly reviewed in the light of available economic information specific to each receivable and provisions are recognised for balances considered to be irrecoverable.

(g) Goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of CGUs to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the CGU and the application of a suitable discount rate in order to calculate the net present value. Cash flow forecasts for the next three years are based on the Group's budgets and forecasts. Other key inputs in assessing each CGU are revenue growth, operating margin and discount rate. The assumptions are set out in note 12 together with an assessment of the impact of reasonably possible sensitivities.

(h) Non-underlying items
Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item is part of underlying or non-underlying items requires judgement.

A total non-underlying cost of £61.3m after tax was charged to the income statement for the year ended 30 June 2015.

(i) Held for sale and discontinued operations
When it is probable that businesses will be sold within one year and they are being actively marketed they meet the criteria to be classified as held for sale. Discontinued operations are businesses or a group of businesses which meet the criteria to be held for sale, have been sold or abandoned, and form a separate major line of business of the Group. Management judgement is applied in assessing the timing of sale to meet the classification criteria.

Details of assets held for sale and discontinued operations are set out in note 19.

(j) Taxation
The Group is subject to tax in a number of jurisdictions and judgement is required in determining the overall provision for income taxes. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is judged probable that future taxable profit will arise against which the temporary differences will be utilised.

2 Segmental reporting
The Group operates four divisions: Property, Residential, Construction and Services, which is the basis on which the Group manages and reports its primary segmental information. Corporate includes unrecovered overheads and the charge for defined benefit pension schemes.

Segmental information is based on the information provided to the Chief Executive, together with the board, who is the chief operating decision maker. The segments are strategic business units which have different core customers and offer different services. The segments are discussed in the Chief Executive's strategic review on pages 6 to 10 and the divisional reviews on pages 38 to 53.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies on pages 123 to 128. The Group evaluates segmental information on the basis of profit or loss from operations before non-underlying items, interest and income tax expense. The segmental 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.

2 Segmental reporting continued

Year to 30 June 2015

Continuing operations	Property £m	Residential £m	Construction £m	Services £m	Corporate £m	Group £m
Revenue[1]						
Group and share of joint ventures	126.2	257.2	1,720.8	1,247.0	–	**3,351.2**
Less share of joint ventures	(66.8)	–	(8.1)	(0.4)	–	**(75.3)**
Group revenue	**59.4**	**257.2**	**1,712.7**	**1,246.6**	**–**	**3,275.9**
Profit						
Group operating profit/(loss)	2.1	11.2	35.9	57.7	(25.9)	**81.0**
Share of post-tax results of joint ventures	5.8	–	1.8	0.3	–	**7.9**
Profit on disposal of joint ventures	14.8	–	–	–	–	**14.8**
Underlying operating profit/(loss)	**22.7**	**11.2**	**37.7**	**58.0**	**(25.9)**	**103.7**
Underlying net finance (costs)/income[2]	(2.5)	(11.0)	6.2	(4.6)	(5.9)	**(17.8)**
Underlying profit/(loss) before tax	**20.2**	**0.2**	**43.9**	**53.4**	**(31.8)**	**85.9**
Non-underlying items						
Amortisation of intangible assets relating to contract rights	(0.1)	–	(0.4)	(10.7)	–	**(11.2)**
Non-underlying finance costs	–	–	–	(3.6)	–	**(3.6)**
Other non-underlying items	–	–	(0.5)	(8.0)	(23.1)	**(31.6)**
Profit/(loss) before tax from continuing operations	**20.1**	**0.2**	**43.0**	**31.1**	**(54.9)**	**39.5**
Balance sheet						
Total assets excluding cash	128.2	320.5	524.1	691.3	629.0	**2,293.1**
Liabilities excluding borrowings	(24.7)	(59.6)	(719.0)	(602.8)	(186.7)	**(1,592.8)**
Net operating assets/(liabilities) excluding assets held for sale[3]	**103.5**	**260.9**	**(194.9)**	**88.5**	**442.3**	**700.3**
Cash, net of borrowings	(73.9)	(243.9)	288.8	(42.9)	(68.9)	**(140.8)**
Net assets excluding assets held for sale	**29.6**	**17.0**	**93.9**	**45.6**	**373.4**	**559.5**
Assets/(liabilities) held for sale	20.3	–	(7.4)	13.1	(0.1)	**25.9**
Net assets	**49.9**	**17.0**	**86.5**	**58.7**	**373.3**	**585.4**
Other information						
Inter-segmental revenue[4]	1.9	–	12.2	130.7	14.0	**158.8**
Capital expenditure	0.1	0.3	2.2	5.9	11.3	**19.8**
Depreciation of property, plant and equipment	–	(0.1)	(6.0)	(16.7)	(6.1)	**(28.9)**
Amortisation of computer software	–	–	–	(2.3)	(2.5)	**(4.8)**

1 Revenue is stated after the exclusion of inter-segmental revenue.
2 Interest was (charged)/credited to the divisions at a notional rate of 4.0%.
3 Net operating assets/(liabilities) represent assets excluding cash, borrowings and interest-bearing inter-company loans.
4 Inter-segmental pricing is determined on an arm's length basis.

Notes to the consolidated financial statements
For the year ended 30 June 2015 continued

2 Segmental reporting continued

Year to 30 June 2014

Continuing operations	Property[5] £m	Residential[5] £m	Construction[5,6] £m	Services £m	Corporate £m	Group[6] £m
Revenue[1]						
Group and share of joint ventures	102.2	233.2	1,498.3	1,104.1	–	**2,937.8**
Less share of joint ventures	(24.4)	–	(6.5)	–	–	**(30.9)**
Group revenue	**77.8**	**233.2**	**1,491.8**	**1,104.1**	**–**	**2,906.9**
Profit						
Group operating profit/(loss)	9.4	7.7	29.1	53.3	(19.9)	**79.6**
Share of post-tax results of joint ventures	0.5	–	1.1	–	–	**1.6**
Profit on disposal of joint ventures	6.1	–	–	–	–	**6.1**
Underlying operating profit/(loss)	**16.0**	**7.7**	**30.2**	**53.3**	**(19.9)**	**87.3**
Underlying net finance (costs)/income[2]	(2.3)	(11.1)	6.9	(4.5)	(2.6)	**(13.6)**
Underlying profit/(loss) before tax	**13.7**	**(3.4)**	**37.1**	**48.8**	**(22.5)**	**73.7**
Non-underlying items						
Amortisation of intangible assets relating to contract rights	(0.1)	–	(0.4)	(10.3)	–	**(10.8)**
Non-underlying finance costs	(0.3)	–	–	(5.0)	–	**(5.3)**
Other non-underlying items	(2.3)	(0.1)	(7.8)	(10.4)	(21.6)	**(42.2)**
Profit/(loss) before tax from continuing operations	**11.0**	**(3.5)**	**28.9**	**23.1**	**(44.1)**	**15.4**
Balance sheet						
Total assets excluding cash	137.2	299.1	540.0	432.0	238.4	**1,646.7**
Liabilities excluding borrowings	(17.3)	(44.0)	(638.9)	(382.0)	(142.4)	**(1,224.6)**
Net operating assets/(liabilities) excluding assets held for sale[3]	**119.9**	**255.1**	**(98.9)**	**50.0**	**96.0**	**422.1**
Cash, net of borrowings	(65.7)	(238.5)	273.9	13.2	(105.7)	**(122.8)**
Net assets/(liabilities) excluding assets held for sale	**54.2**	**16.6**	**175.0**	**63.2**	**(9.7)**	**299.3**
Assets held for sale	10.4	–	–	–	–	**10.4**
Net assets/(liabilities)	**64.6**	**16.6**	**175.0**	**63.2**	**(9.7)**	**309.7**
Other information						
Inter-segmental revenue[4]	1.5	–	10.3	130.0	8.4	**150.2**
Capital expenditure	1.0	–	3.2	35.2	8.8	**48.2**
Depreciation of property, plant and equipment	(0.1)	(0.1)	(8.5)	(29.2)	(3.6)	**(41.5)**
Amortisation of computer software	–	–	–	–	(1.1)	**(1.1)**

1 Revenue is stated after the exclusion of inter-segmental revenue.
2 Interest was (charged)/credited to the divisions at a notional rate of 4.0%.
3 Net operating assets/(liabilities) represent assets excluding cash, borrowings and interest-bearing inter-company loans.
4 Inter-segmental pricing is determined on an arm's length basis.
5 Restated to reflect the reclassification of the Property and Construction divisions into the Property, Residential and Construction divisions.
6 Restated to reflect the classification of the UK mining operations as discontinued.

3 Profit for the year

Operating profit is stated after charging/(crediting):

	2015 £m	2014 £m
Auditor's remuneration:		
Fees payable for the audit of the parent company and consolidated financial statements	**0.1**	0.1
Fees payable to the Company's auditor for other services:		
Audit of the Company's subsidiaries, pursuant to legislation	**1.1**	0.7
Other services	**0.5**	0.9
Depreciation of property, plant and equipment:		
Owned	**6.0**	12.9
Finance leased	**16.2**	19.4
Loss/(profit) on sale of property, plant and equipment	**2.1**	(4.5)
Hire of plant and machinery	**143.9**	55.1
Operating lease rentals:		
Land and buildings	**11.2**	4.7
Plant and machinery	**12.7**	11.6
Research and Development Expenditure Credit receivable	**(4.1)**	–

The 2014 auditor's remuneration relate to amounts paid to KPMG LLP. The 2015 auditor's remuneration relate to amounts paid to PricewaterhouseCoopers LLP.

A summary of other services provided by PricewaterhouseCoopers LLP during the year, £0.5m, are provided on page 79 (2014: £0.9m was payable to KPMG LLP mainly in respect of the Group's organisational and efficiency project).

4 Non-underlying items[1]

	2015 £m	2014 £m
Continuing operations		
Amortisation of intangible contract rights	**(11.2)**	(10.8)
Acquisition discount unwind	**(3.6)**	(5.3)
Other non-underlying items:		
Costs relating to acquisition of the Mouchel Group	**(13.5)**	–
Costs in relation to the preparation for and restructuring following the acquisition of the Mouchel Group	**(8.4)**	–
Costs associated with cessation of the Kier Group final salary pension scheme	**(6.3)**	–
Costs relating to the disposal of Fleet & Passenger Services	**(3.4)**	–
Costs relating to acquisition of May Gurney	**–**	(8.1)
Restructuring and transformation costs following the acquisition of May Gurney	**–**	(29.6)
Construction Workers Compensation Scheme costs	**–**	(4.5)
Total other non-underlying items	**(31.6)**	(42.2)
Total non-underlying items from continuing operations	**(46.4)**	(58.3)
Associated tax credit	**6.9**	9.8
Charged against profit for the year from continuing operations	**(39.5)**	(48.5)
Discontinued operations		
Impairment of the UK mining business to fair value less costs to sell (see note 19)	**(22.9)**	–
Associated tax credit	**1.1**	–
Non-underlying items from discontinued operations	**(21.8)**	–
Charged against profit for the year	**(61.3)**	(48.5)

[1] Exceptional items.

4 Non-underlying items[1] continued

During the year the Group incurred £13.5m on the acquisition of the Mouchel Group and in 2014 £8.1m on the acquisition of May Gurney. In preparation for and following the Mouchel acquisition the business incurred £8.4m on restructuring and transformation costs primarily related to reduction in staff numbers and integration of Mouchel into the enlarged business. In 2014 £29.6m was incurred on restructuring and transformation costs following the acquisition of May Gurney.

£3.4m was incurred preparing the Fleet & Passenger Services business for sale (see note 31) and £1.1m was incurred closing the Kier Group final salary pension scheme with a further £5.2m non-cash curtailment charge being incurred on cessation of the pension scheme.

£4.5m was provided in 2014 for the likely cost to satisfy the Group's share of both claims from, and the administration costs of, the Construction Workers Compensation Scheme.

[1] Exceptional items.

5 Finance income and cost – continuing operations

			2015			2014
	Underlying £m	**Non-underlying[2] £m**	**Total £m**	Underlying[3] £m	Non-underlying[2] £m	Total[3] £m
Finance income						
Interest receivable on bank deposits	**0.7**	**–**	**0.7**	0.6	–	0.6
Interest receivable on loans to joint ventures	**1.0**	**–**	**1.0**	1.6	–	1.6
	1.7	**–**	**1.7**	2.2	–	2.2
Finance costs						
Interest payable and fees on bank overdrafts and loans	**(1.0)**	**–**	**(1.0)**	(3.6)	–	(3.6)
Interest payable on borrowings	**(13.7)**	**–**	**(13.7)**	(7.6)	–	(7.6)
Interest payable to joint ventures	**–**	**–**	**–**	(0.1)	–	(0.1)
Interest payable on finance leases	**(2.6)**	**–**	**(2.6)**	(2.7)	–	(2.7)
Discount unwinding	**–**	**(3.6)**	**(3.6)**	–	(5.3)	(5.3)
Net interest on net defined benefit obligation	**(2.2)**	**–**	**(2.2)**	(1.8)	–	(1.8)
	(19.5)	**(3.6)**	**(23.1)**	(15.8)	(5.3)	(21.1)
Net finance costs	**(17.8)**	**(3.6)**	**(21.4)**	(13.6)	(5.3)	(18.9)

[2] Unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition.
[3] Restated to exclude discontinued operations (see note 19).

6 Information relating to employees

	Note	2015 No.	2014 No.
Monthly average number of people employed during the year including executive directors was:			
United Kingdom		**16,110**	14,318
Rest of world		**1,821**	1,017
		17,931	15,335
		£m	£m
Group staff costs are as follows:			
United Kingdom		**681.5**	576.4
Rest of world		**60.7**	37.0
		742.2	613.4
Comprising:			
Wages and salaries		**657.5**	522.2
Social security costs		**37.9**	45.9
Defined benefit pension scheme costs		**14.2**	14.0
Contributions to the defined contribution pension scheme (2015 includes curtailment charge of £5.2m)		**29.2**	27.3
Share-based payment plans	25	**3.4**	4.0
		742.2	613.4

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 84 to 106.

8 Retirement benefit obligations

The Group operates a number of pension schemes for eligible employees as described 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 in trust separate from the assets 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 continued to accrue benefits for service until the scheme was closed to future accrual on 28 February 2015.

The contributions paid during the year were £24.7m (2014: £16.4m) which included contributions of £15.1m (2014: £8.0m) to fund the past service deficit.

Going forward, contributions will include an allowance for funding the past service deficit identified at the 2013 valuation date. The Group expects to make contributions of £16.5m for funding the past service deficit in the year to June 2016.

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

Other defined benefit schemes

Acquired with the May Gurney group

The May Gurney and TransLinc defined benefit schemes were acquired with May Gurney in the 2014 financial year. Both of these defined benefit schemes have closed to future accrual and the sum of the deficit contributions to both plans payable in the period to 30 June 2015 amounted to £0.3m (2014: £0.3m). The assets of the scheme are held in trust separate from the assets of the Group. The trustees are responsible for decisions and holding the assets, and delegate day-to-day decisions to independent professional investment managers.

The TransLinc defined benefit scheme is associated with Kier FPS Limited, which was sold shortly after the end of the financial year. Therefore the assets and liabilities of the TransLinc defined benefit scheme have been transferred out of the pension liability and into assets/liabilities held for sale (see note 19).

An actuarial valuation of the May Gurney scheme was undertaken by the trustees' independent actuaries as at 31 March 2014 using the projected unit method. The market value of the scheme's assets at that date was £62.0m which represented approximately 83% of the benefits that had accrued to members at that date, after allowing for future increases in pensionable salaries. Deficit contributions for the 2015/16 financial year of £1.6m have been agreed with the trustees.

Notes to the consolidated financial statements
For the year ended 30 June 2015 continued

8 Retirement benefit obligations continued

Acquired with the Mouchel Group

The Group has acquired a number of defined benefit pension schemes with the Mouchel Group. At acquisition, the aggregate liability of the schemes was £68.6m. The assets of the scheme are held in trust separate from the assets of the Group. The trustees are responsible for decisions and holding the assets, and delegate day-to-day decisions to independent professional investment managers.

These schemes were closed to new entrants in 2001. The 'public sector comparable' parts of the schemes are still open to future accrual, but the remainder was closed to future accrual in 2010. There is a deficit recovery plan in place, requiring deficit contributions of £7.8m in the coming year.

In total, the schemes currently have 78 active members, 3,042 deferred members and 1,305 retirees.

The Mouchel schemes were formally valued by the trustees independent actuaries as at 31 March 2013 and will need to be valued again in 2016.

Other defined contribution schemes

Contributions are also made to a number of other defined contribution arrangements. The Group paid contributions of £29.2m (2014: £26.7m) during the year to these arrangements.

IAS19 'Employee Benefits' disclosures

The Group recognises any actuarial gains or losses through the statement of comprehensive income as permitted under IAS19.

The principal assumptions used by the independent qualified actuaries were:

Kier Group Pension Scheme

	2015 %	2014 %	2013 %
Rate of general increases in pensionable salaries	**n/a**	3.3	3.3
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.3**	3.2	3.2
Discount rate	**3.9**	4.4	4.7
Inflation rate (Retail Price Index ('RPI'))	**3.4**	3.4	3.5
Inflation rate (Consumer Price Index ('CPI'))	**2.3**	2.4	2.5

The mortality assumptions are that life expectancy from age 60 is currently 27.8 years for a man and 29.7 years for a woman but is expected to increase to 28.9 years for future male and 31.0 years for future female pensioners who retire in 2035.

			Value
	2015 £m	2014 £m	2013 £m
Land	**–**	13.3	12.9
Equities, property and other return-seeking assets	**672.5**	644.9	608.1
PFI assets	**8.5**	7.3	7.1
Government bonds, cash, swaps and collateral	**238.4**	171.6	155.6
Total market value of assets	**919.4**	837.1	783.7
Present value of liabilities	**(994.6)**	(900.2)	(832.4)
Deficit	**(75.2)**	(63.1)	(48.7)
Related deferred tax asset	**15.0**	12.6	11.2
Net pension liability	**(60.2)**	(50.5)	(37.5)

May Gurney defined benefit schemes

	2015 %	2014 %
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.3**	3.2
Discount rate	**3.9**	4.4
Inflation rate (RPI)	**3.4**	3.4
Inflation rate (CPI)	**2.3**	2.4

The mortality assumptions are that life expectancy from age 60 is currently 26.5 years for a man and 28.8 years for a woman but is expected to increase to 28.1 years for future male and 30.5 years for future female pensioners who retire in 2035.

	Value	
	2015 £m	2014 £m
Equities, property and other return-seeking assets	**29.3**	38.0
Government bonds and cash	**37.1**	36.6
Total market value of assets	**66.4**	74.6
Present value of liabilities	**(69.9)**	(71.3)
Surplus	**(3.5)**	3.3
Related deferred tax liability	**0.7**	(0.7)
Net pension (deficit)/asset	**(2.8)**	2.6

Mouchel defined benefit schemes

	2015 %
Rate of general increases in pensionable salaries	**n/a**
Discount rate	**3.9%**
Inflation rate ('RPI')	**3.4%**
Inflation rate ('CPI')	**2.3%**

The mortality assumptions are that life expectancy from age 60 is currently 27.3 years for a man and 29.8 years for a woman but is expected to increase to 29.1 years for future male and 31.7 years for future female pensioners who retire in 2035.

	Value
	2015 £m
Land	**16.1**
Equities, property and other return-seeking assets	**277.6**
Government bonds, cash, swaps and collateral	**62.6**
Total market value of assets	**356.3**
Present value of liabilities	**(431.2)**
Deficit	**(74.9)**
Related deferred tax asset	**15.0**
Net pension liability	**(59.9)**

8 Retirement benefit obligations continued

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

	2015				2014			
	Kier Group Pension Scheme £m	May Gurney £m	Mouchel £m	Total £m	Kier Group Pension Scheme £m	May Gurney £m	Kier Sheffield LLP £m	Total £m
(Charged)/credited to operating profit in the income statement								
Current service cost	**(5.8)**	**–**	**(0.1)**	**(5.9)**	(9.3)	–	(2.5)	(11.8)
Administration expenses	**(0.6)**	**(0.2)**	**(0.1)**	**(0.9)**	(0.9)	–	–	(0.9)
Past service cost (including curtailments)	**(5.2)**	**–**	**–**	**(5.2)**	–	–	(0.9)	(0.9)
Settlement credit	**–**	**–**	**–**	**–**	–	–	1.4	1.4
Net interest on net defined benefit obligation	**(2.2)**	**0.1**	**(0.1)**	**(2.2)**	(1.9)	0.1	–	(1.8)
Pension (expense)/credit recognised in profit and loss	**(13.8)**	**(0.1)**	**(0.3)**	**(14.2)**	(12.1)	0.1	(2.0)	(14.0)
Re-measurement in other comprehensive income								
Actual return in excess of that recognised in net interest	**60.4**	**5.9**	**–**	**66.3**	36.4	2.5	5.1	44.0
Actuarial losses due to changes in financial assumptions	**(87.8)**	**(10.8)**	**(6.6)**	**(105.2)**	(44.4)	(3.4)	(7.5)	(55.3)
Actuarial losses due to changes in demographic assumptions	**–**	**–**	**–**	**–**	(7.7)	–	(8.4)	(16.1)
Actuarial gains/(losses) due to liability experience	**4.4**	**0.5**	**–**	**4.9**	(3.0)	–	11.7	8.7
Total amount recognised in full	**(23.0)**	**(4.4)**	**(6.6)**	**(34.0)**	(18.7)	(0.9)	0.9	(18.7)
Changes in the fair value of scheme assets								
Fair value at 1 July	**837.1**	**74.6**	**–**	**911.7**	783.7	–	182.9	966.6
Acquired in the year	**–**	**–**	**355.8**	**355.8**	–	71.1	–	71.1
Interest income on scheme assets	**36.6**	**3.2**	**0.8**	**40.6**	36.4	3.3	6.5	46.2
Re-measurement gains on scheme assets	**60.4**	**5.9**	**–**	**66.3**	36.4	2.5	5.1	44.0
Contributions by the employer	**24.7**	**0.3**	**0.7**	**25.7**	16.4	0.3	2.1	18.8
Contributions by scheme participants	**–**	**–**	**–**	**–**	0.1	–	0.8	0.9
Net benefits paid out	**(38.8)**	**(3.4)**	**(0.9)**	**(43.1)**	(35.0)	(2.6)	(4.3)	(41.9)
Administration expenses	**(0.6)**	**(0.2)**	**(0.1)**	**(0.9)**	(0.9)	–	–	(0.9)
Transfer to assets held for resale	**–**	**(14.0)**	**–**	**(14.0)**	–	–	(193.1)	(193.1)
Fair value at 30 June	**919.4**	**66.4**	**356.3**	**1,342.1**	837.1	74.6	–	911.7
Changes in the present value of the defined benefit obligation								
Fair value at 1 July	**(900.2)**	**(71.3)**	**–**	**(971.5)**	(832.4)	–	(183.9)	(1,016.3)
Acquired in the year	**–**	**–**	**(424.4)**	**(424.4)**	–	(67.4)	–	(67.4)
Current service cost	**(5.8)**	**–**	**(0.1)**	**(5.9)**	(9.3)	–	(2.5)	(11.8)
Interest expense on scheme liabilities	**(38.8)**	**(3.1)**	**(1.0)**	**(42.9)**	(38.3)	(3.1)	(6.5)	(47.9)
Past service cost	**(5.2)**	**–**	**–**	**(5.2)**	–	–	(0.9)	(0.9)
Settlement	**–**	**–**	**–**	**–**	–	–	1.4	1.4
Actuarial losses due to changes in financial assumptions	**(87.8)**	**(10.8)**	**(6.6)**	**(105.2)**	(44.4)	(3.4)	(7.5)	(55.3)
Actuarial losses due to changes in demographic assumptions	**–**	**–**	**–**	**–**	(7.7)	–	(8.4)	(16.1)
Actuarial (losses)/gains due to liability experience	**4.4**	**0.5**	**–**	**4.9**	(3.0)	–	11.7	8.7
Contributions by scheme participants	**–**	**–**	**–**	**–**	(0.1)	–	(0.8)	(0.9)
Net benefits paid out	**38.8**	**3.4**	**0.9**	**43.1**	35.0	2.6	4.3	41.9
Transfer to assets held for resale	**–**	**11.4**	**–**	**11.4**	–	–	193.1	193.1
Fair value at 30 June	**(994.6)**	**(69.9)**	**(431.2)**	**(1,495.7)**	(900.2)	(71.3)	–	(971.5)
Amounts included in the balance sheet								
Fair value of scheme assets	**919.4**	**66.4**	**356.3**	**1,342.1**	837.1	74.6	–	911.7
Net present value of the defined benefit obligation	**(994.6)**	**(69.9)**	**(431.2)**	**(1,495.7)**	(900.2)	(71.3)	–	(971.5)
Net (deficit)/surplus	**(75.2)**	**(3.5)**	**(74.9)**	**(153.6)**	(63.1)	3.3	–	(59.8)
Related deferred tax asset/(liability)	**15.0**	**0.7**	**15.0**	**30.7**	12.6	(0.7)	–	11.9
Net pension (liability)/asset	**(60.2)**	**(2.8)**	**(59.9)**	**(122.9)**	(50.5)	2.6	–	(47.9)

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

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Fair value of scheme assets	**1,342.1**	911.7	966.6	883.1	839.7
Net present value of the defined benefit obligation	**(1,495.7)**	(971.5)	(1,016.3)	(940.9)	(869.3)
Net deficit	**(153.6)**	(59.8)	(49.7)	(57.8)	(29.6)
Related deferred tax asset	**30.7**	11.9	11.4	13.9	7.7
Net pension liability	**(122.9)**	(47.9)	(38.3)	(43.9)	(21.9)
Difference between expected and actual return on scheme assets	**66.3**	44.0	45.7	(6.1)	47.0
Experience gains/(losses) on scheme liabilities	**4.9**	8.7	0.7	(42.9)	(34.4)

The Group has made the following special contributions to the Kier Group Pension Scheme in the period (2014: nil):

- In July 2014, £1.8m which was settled in cash; and
- In September 2014, £1.5m which was settled in cash.

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

Pension sensitivity

The following tables shows the change in surplus/(deficit) arising from a change in the significant actuarial assumptions used to determine the retirement benefits obligations.

Kier Group Pension Scheme:	**2015**		2014	
	+0.25%/+1 year £m	**-0.25%/-1 year £m**	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+0.25%, -0.25%)	**45.7**	**(45.7)**	41.1	(41.4)
Inflation rate (+0.25%, -0.25%)	**(31.0)**	**31.0**	(20.3)	20.3
Increase in life expectancy (+/– 1 year)	**(33.2)**	**33.2**	(28.7)	28.7

Mouchel Group pension schemes:	**2015**	
	+0.25%/+1 year £m	**-0.25%/-1 year £m**
Discount rate (+0.25%, -0.25%)	**19.4**	**(19.4)**
Inflation rate (+0.25%, -0.25%)	**(17.0)**	**17.0**
Increase in life expectancy (+/– 1 year)	**(10.8)**	**10.8**

The sensitivity analyses above have been determined based on reasonably possible changes of the respective assumptions occuring at the end of the reporting period and may not be representative of the actual change, which is based on a change in a key assumption while holding all other assumptions constant. When calculating the sensitivity to the assumption, the same method used to calculate the liability recognised in the balance sheet has been applied. The methods and types of assumptions used in preparing the sensitivity analyses did not change compared with the previous period.

9 Taxation

(a) Recognised in the income statement

	2015			2014[2]		
	Underlying items[1] £m	Non-underlying items (note 4) £m	Total £m	Underlying items[1] £m	Non-underlying items (note 4) £m	Total £m
Current tax expense						
UK corporation tax	5.1	(2.9)	2.2	6.9	(8.2)	(1.3)
Adjustments for prior years	10.0	–	10.0	0.8	–	0.8
Total current tax	15.1	(2.9)	12.2	7.7	(8.2)	(0.5)
Deferred tax expense						
Origination and reversal of temporary differences	12.6	(4.0)	8.6	10.6	(1.6)	9.0
Adjustments in respect of prior years	(10.4)	–	(10.4)	0.6	–	0.6
Rate change effect on deferred tax	(0.4)	–	(0.4)	(5.4)	–	(5.4)
Total deferred tax	1.8	(4.0)	(2.2)	5.8	(1.6)	4.2
Total tax charge/(credit) in the income statement	16.9	(6.9)	10.0	13.5	(9.8)	3.7
Reconciliation of effective tax rate						
Profit before tax	85.9	(46.4)	39.5	73.7	(58.3)	15.4
Add: tax on joint ventures included above	0.3	–	0.3	0.1	–	0.1
Adjusted profit before tax	86.2	(46.4)	39.8	73.8	(58.3)	15.5
Income tax at UK corporation tax rate of 20.75% (2014: 22.5%)	17.9	(9.6)	8.3	16.6	(13.1)	3.5
Non-deductible expenses	0.1	2.7	2.8	2.5	3.3	5.8
Effect of change in UK corporation tax rate	(0.4)	–	(0.4)	(5.5)	–	(5.5)
Capital gains not taxed	(0.3)	–	(0.3)	(1.4)	–	(1.4)
Tax relief on expenses not recognised in the income statement	–	–	–	(0.2)	–	(0.2)
Effect of tax rates in foreign jurisdictions	0.3	–	0.3	0.2	–	0.2
Adjustments in respect of prior years	(0.4)	–	(0.4)	1.4	–	1.4
Total tax (including joint ventures)	17.2	(6.9)	10.3	13.6	(9.8)	3.8
Tax on joint ventures	(0.3)	–	(0.3)	(0.1)	–	(0.1)
Group tax charge/(credit)	16.9	(6.9)	10.0	13.5	(9.8)	3.7

1 Stated before non-underlying items (see note 4).
2 Restated to reclassify the Group's UK mining operations as discontinued.

Kier Group and its subsidiaries are based predominantly in the UK and are subject to UK corporation tax. The Group does not have an aggressive tax policy and since 1 July 2012 Kier has not entered into any tax avoidance schemes which were or should have been notified under the Disclosure of Tax Avoidance Scheme rules.

The tax charge before non-underlying items and amortisation of contract rights of £16.9m (2014[2]: £13.5m) shown in the table above equates to an effective tax rate of 20% (2014[2]: 18%) on adjusted profit before tax of £86.2m (2014[2]: £73.8m). This effective rate is lower than the standard rate of corporation tax of 20.75% (2014: 22.5%) due to a number of items shown in the table above. The non-deductible expenses mainly relate to acquisition costs on Mouchel and permanent differences on provisions.

In accordance with UK tax legislation, capital gains arising on disposal of certain investments, including some of the joint ventures disposed of during the year, are not subject to tax.

Tax relief on expenses not recognised in the income statement includes the impact of the tax deduction received in respect of the cost of shares exercised under the Group's employee Save As You Earn Scheme and LTIP.

The net credit adjustment of £0.4m in respect of prior years' results arises from differences between the estimates of taxation included in the previous year's financial statements and the actual tax liabilities calculated in the tax returns submitted to and agreed by HMRC.

(b) Recognised in the cash flow statement

The cash flow statement shows payments of £3.5m during the year (2014: £11.3m repayment).

(c) Recognised in the statement of comprehensive income

	2015 £m	2014 £m
Deferred tax expense (including effect of change in tax rate)		
Share of fair value movements on joint venture cash flow hedging instruments	**0.2**	3.6
Fair value movements on cash flow hedging instruments	**–**	(0.3)
Actuarial losses on defined benefit pension schemes	**(6.8)**	4.9
Provisions	**–**	1.9
Total tax charge in the statement of comprehensive income	**(6.6)**	10.1

(d) Factors that may affect future tax charges

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. The overall effect of these changes, if they had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by an additional £1.1m with £4.6m being credited to the income statement and £5.7m being charged directly to the statement of comprehensive income.

The deferred tax balance as at the year end has been recognised at 20%.

(e) Tax losses

At the balance sheet date the Group has unused tax losses of £177.3m (2014: £14.8m) available for offset against future profits. A deferred tax asset has been recognised in respect of £43.2m (2014: £14.7m) of income tax 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 owners of the parent in the year:

	2015 £m	2014 £m
Final dividend for the year ended 30 June 2014 of 39.6 pence[1] (2013: 37.2 pence[1])	**27.0**	25.0
Interim dividend for the year ended 30 June 2015 of 19.2 pence[1] (2014: 18.0 pence[1])	**13.2**	12.3
	40.2	37.3

The proposed final dividend of 36.0 pence (2014: 39.6 pence[1]) bringing the total dividend for the year to 55.2 pence[1] (2014: 57.6 pence[1]) 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 circa £34.1m will be paid on 27 November 2015 to shareholders on the register at the close of business on 25 September 2015. A scrip dividend alternative will be offered.

[1] As restated for the bonus element of the rights issue associated with the Mouchel transaction (see note 24).

Notes to the consolidated financial statements
For the year ended 30 June 2015 continued

11 Earnings per share

A reconciliation of profit and earnings per share, as reported in the income statement, to underlying profit and earnings per share is set out below. The adjustments are made to illustrate the impact of non-underlying items.

	2015		2014[1]	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings				
Continuing operations				
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**28.4**	**28.4**	11.0	11.0
Impact of non-underlying items net of tax:				
Amortisation of intangible assets – net of tax credit of £2.3m (2014: £2.2m)	**8.9**	**8.9**	8.6	8.6
Acquisition discount unwind[2] – net of tax credit of £0.7m (2014: £1.2m)	**2.9**	**2.9**	4.1	4.1
Other non-underlying items – net of tax credit of £3.9m (2014: £6.4m)	**27.7**	**27.7**	35.8	35.8
Earnings from continuing operations	**67.9**	**67.9**	59.5	59.5
Discontinued operations				
Earnings (after tax and minority interests), being net loss attributable to equity holders of the parent	**(24.0)**	**(24.0)**	(1.0)	(1.0)
Other non-underlying items – net of tax credit of £1.1m (2014: nil)	**21.8**	**21.8**	–	–
Earnings from discontinued operations	**(2.2)**	**(2.2)**	(1.0)	(1.0)

	million	million	million[3]	million[3]
Weighted average number of shares used for earnings per share	**70.7**	**71.0**	68.0	68.5

Earnings per share				
Continuing operations	pence	pence	pence[3]	pence[3]
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**40.2**	**40.0**	16.2	16.1
Impact of non-underlying items net of tax:				
Amortisation of intangible assets	**12.6**	**12.5**	12.6	12.6
Acquisition discount unwind	**4.0**	**4.1**	6.1	5.9
Other non-underlying items	**39.2**	**39.0**	52.6	52.3
Earnings from continuing operations	**96.0**	**95.6**	87.5	86.9
Discontinued operations				
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**(33.9)**	**(33.9)**	(1.5)	(1.5)
Other non-underlying items	**30.8**	**30.8**	–	–
Earnings from discontinued operations	**(3.1)**	**(3.1)**	(1.5)	(1.5)

1 Represented to show UK mining operations as discontinued (see note 19).
2 Unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition.
3 On 2 June 2015, to fund the Mouchel acquisition, the business raised £340.2m, from a 5 for 7 rights issue, issuing 39,646,692 new shares at 858 pence per share, at a bonus of 25.1%. EPS has been restated to reflect the bonus element embedded in the rights issue.

12 Intangible assets

	Goodwill £m	Intangible contract rights £m	Computer software[1] £m	Total £m
Cost				
At 30 June 2013	13.4	38.9	4.5	**56.8**
Additions	1.2	0.5	4.5	**6.2**
Acquired	194.7	106.7	–	**301.4**
Disposals	(0.7)	(1.6)	–	**(2.3)**
At 30 June 2014	208.6	144.5	9.0	**362.1**
Additions	–	0.9	21.7	**22.6**
Acquired	302.1	141.0	4.2	**447.3**
Disposals	(1.2)	0.7	(0.3)	**(0.8)**
At 30 June 2015	**509.5**	**287.1**	**34.6**	**831.2**
Amortisation				
At 30 June 2013	–	(25.6)	(1.2)	**(26.8)**
Charge for the year	–	(10.8)	(1.1)	**(11.9)**
Disposals	–	0.4	–	**0.4**
At 30 June 2014	–	(36.0)	(2.3)	**(38.3)**
Charge for the year	–	(11.2)	(4.8)	**(16.0)**
Disposals	–	(0.2)	–	**(0.2)**
At 30 June 2015	**–**	**(47.4)**	**(7.1)**	**(54.5)**
Net book value				
At 30 June 2015	**509.5**	**239.7**	**27.5**	**776.7**
At 30 June 2014	208.6	108.5	6.7	323.8

1 £19.6m is under construction and not being depreciated.

Goodwill relates to the acquisition of MRBL Limited (£301.3m), May Gurney Integrated Services PLC (£194.7m), Kier Partnership Homes Limited (£5.2m), Pure Recycling Limited (£4.8m), Beco Limited (£2.6m) and Southdale (£0.8m). These balances have been subject to an annual impairment review based upon the projected profits of each CGU.

The cost of contract rights primarily relates to:

- The acquisition of the businesses and assets of the construction and business services operations of Sheffield City Council (£21.3m), Harlow Council (£0.8m), Stoke-on-Trent City Council (£1.9m) and North Tyneside Council (£7.2m). These contracts are in partnership with the respective councils that have retained a participatory ownership interest and the rights for a minority share in the profits. These profit shares are reflected in the income statement as minority interests. The amounts for the year to 30 June 2015 are: Sheffield City Council £nil (2014: £0.2m), Harlow Council £0.6m (2014: £0.6m), Stoke-on-Trent City Council £0.3m (2014: £0.2m) and North Tyneside Council £0.2m (2014: £0.1m);
- The acquisition of Pure Recycling Limited (£2.0m) and Stewart Milne (£1.0m);
- The acquisition of a commercial refuse collections business from Wealdon District Council (£3.6m);
- The acquisition of May Gurney Integrated Services plc (£106.7m); and
- The acquisition of MRBL Limited (Mouchel Group) (£141.0m).

Contract rights on May Gurney and Mouchel are amortised on a straight-line basis over the expected total contract duration. All other contract rights are amortised on a straight-line basis over the remaining contract life.

Notes to the consolidated financial statements
For the year ended 30 June 2015 continued

12 Intangible assets continued

Carrying amounts of goodwill and intangible contract rights by CGU

	2015			2014		
	Goodwill £m	Intangible contract rights £m	Total £m	Goodwill £m	Intangible contract rights £m	Total £m
Property	**0.1**	**0.6**	**0.7**	1.3	0.6	1.9
Residential	**6.0**	**–**	**6.0**	5.1	–	5.1
Construction	**6.9**	**3.8**	**10.7**	6.9	4.3	11.2
Services	**496.5**	**235.3**	**731.8**	195.3	103.6	298.9
	509.5	**239.7**	**749.2**	208.6	108.5	317.1

For impairment testing purposes the goodwill has been allocated to the above four CGUs. The recoverable amount of the goodwill and intangibles has been determined based on value in use calculations. The calculations use cash flow projections based on the Group's forecasts, approved by management, covering a three-year period.

The resulting cash flows are discounted to present value, with the discount rate used in the value in use calculations based on the Group's weighted average cost of capital, adjusted as necessary to reflect the risk associated with the assets being tested.

The key assumptions in the value in use calculations are the forecast revenues and gross margins during the forecast period and the discount rates applied to future cash flows. Cash flows for periods beyond those forecast have a terminal growth rate assumption applied.

Significant headroom exists in all CGUs and management considers that any reasonably possible change in the key assumptions would not lead to an impairment being recognised.

Services segment

A revenue growth rate of 2% and a fixed operating margin of 5% have been applied to the Services segment cash flows into perpetuity. These assumptions are in line with current trading and current forecasts of UK GDP growth rate. The pre-tax discount rate used is 10.0% (2014: 9.1%).

Based on the value in use calculation, these assumptions derived a recoverable amount for the Services segment that is £474m above the carrying value of segmental assets.

The Services CGU impairment review is sensitive to changes in the key assumptions: discount rate, revenue growth rate and the operating margin, although management do not consider that any reasonable possible change in any single assumption would give rise to an impairment of the carrying value of goodwill and intangibles. The assumptions would have to change as follows for any single assumption change to bring headroom down to £nil:

- Discount rate – increase from 10.0% to 14.6%;
- Growth rate – reduce from positive 2% to negative 5.5%; and
- Underlying operating margin – reduce from 5% to 2.4%.

13 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Mining £m	Total £m
Cost				
At 30 June 2013	60.2	81.1	49.9	**191.2**
Acquired	7.3	158.8	–	**166.1**
Additions	6.7	39.5	2.0	**48.2**
Disposals	(2.4)	(42.6)	–	**(45.0)**
Currency realignment	–	(1.2)	–	**(1.2)**
At 30 June 2014	71.8	235.6	51.9	**359.3**
Acquired	0.6	6.8	–	**7.4**
Additions	1.1	18.7	–	**19.8**
Disposals	(1.6)	(12.1)	(0.2)	**(13.9)**
Currency realignment	–	0.5	–	**0.5**
Transfer to assets held for resale	(0.7)	(119.1)	(51.7)	**(171.5)**
At 30 June 2015	**71.2**	**130.4**	**–**	**201.6**
Accumulated depreciation				
At 30 June 2013	(6.0)	(49.4)	(26.6)	**(82.0)**
Acquired	(3.2)	(75.8)	–	**(79.0)**
Charge for the year – continuing operations	(2.2)	(32.3)	–	**(34.5)**
– discontinued operations	–	–	(7.0)	**(7.0)**
Disposals	1.1	35.6	–	**36.7**
Impairment	(2.0)	–	–	**(2.0)**
Currency realignment	–	0.9	–	**0.9**
At 30 June 2014	(12.3)	(121.0)	(33.6)	**(166.9)**
Charge for the year – continuing operations	(2.4)	(22.2)	–	**(24.6)**
– discontinued operations	–	–	(4.3)	**(4.3)**
Disposals	0.7	8.9	–	**9.6**
Currency realignment	–	(0.4)	–	**(0.4)**
Transfer to assets held for resale	0.5	67.8	37.9	**106.2**
At 30 June 2015	**(13.5)**	**(66.9)**	**–**	**(80.4)**
Net book value				
At 30 June 2015	**57.7**	**63.5**	**–**	**121.2**
At 30 June 2014	59.5	114.6	18.3	192.4

The net book value of plant and equipment includes an amount of £24.4m (2014: £81.2m) in respect of assets held under finance leases (see note 21).

Notes to the consolidated financial statements
For the year ended 30 June 2015 continued

14 Investments in and loans to joint ventures
(a) Movements in year

	2015 £m	2014 £m
Investment in joint ventures		
At 1 July	**40.9**	29.7
Acquired	**0.4**	–
Additions	**35.6**	11.7
Loan repayments	**–**	0.4
Disposals	**(2.4)**	(13.7)
Share of:		
Operating profit	**8.2**	1.9
Finance costs	**–**	(0.2)
Taxation	**(0.3)**	(0.1)
Post-tax results of joint ventures	**7.9**	1.6
Dividends received	**(3.5)**	(0.3)
Items recognised directly in other comprehensive income:		
Fair value movements in cash flow hedging instruments	**0.7**	15.1
Deferred tax on fair value movements in cash flow hedging instruments	**(0.2)**	(3.6)
At 30 June	**79.4**	40.9

(b) Analysis of investment and loans

	2015 £m	2014 £m
Non-current assets		
Property, plant and equipment	**75.5**	33.9
Deferred tax assets	**0.1**	0.7
Other non-current assets	**26.3**	38.0
Non-current assets	**101.9**	72.6
Current assets		
Cash and trade receivables	**91.6**	29.9
Current assets	**91.6**	29.9
Total assets	**193.5**	102.5
Current liabilities		
Trade and other payables – current	**(50.1)**	(9.3)
Income tax payable	**(0.5)**	–
Borrowings – current	**(1.0)**	(3.4)
Current liabilities	**(51.6)**	(12.7)
Non-current liabilities		
Borrowings	**(95.5)**	(56.6)
Non-current liabilities	**(95.5)**	(56.6)
Total liabilities	**(147.1)**	(69.3)
Net external assets	**46.4**	33.2
Loans provided to joint ventures	**33.0**	7.7
Total investments in and loans to joint ventures	**79.4**	40.9

The Group has provided guarantees to support borrowing facilities of joint ventures as follows:

	2015			2014		
	Borrowing facility £m	**Guarantee £m**	**Drawn at 30 June £m**	Borrowing facility £m	Guarantee £m	Drawn at 30 June £m
Solum Regeneration (Epsom) LP	**–**	**–**	**–**	15.0	7.5	5.0
Kier Sydenham LP	**45.8**	**7.5**	**45.8**	36.0	36.0	31.5
Biogen (UK) Limited	**22.0**	**17.0**	**15.0**	22.0	22.0	9.0
Kier Reading LLP	**16.0**	**8.0**	**16.0**	–	–	–
Kier Hammersmith Limited	**21.5**	**21.5**	**3.5**	–	–	–
Kier Trade City LLP	**19.0**	**2.9**	**0.6**	–	–	–
Fore UK 1B LP	**19.3**	**19.3**	**5.2**	–	–	–
	143.6	**76.2**	**86.1**	73.0	65.5	45.5

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 166.

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 30 June 2013	(0.6)	2.8	7.5	11.4	2.4	**23.5**
Acquired	(21.3)	1.9	2.9	(0.8)	5.9	**(11.4)**
Credited/(charged) to income statement	1.6	–	(6.7)	6.2	(5.4)	**(4.3)**
Charged directly to comprehensive income	–	–	(1.6)	(4.9)	–	**(6.5)**
Share-based payments credited to equity	–	–	0.5	–	–	**0.5**
At 30 June 2014	(20.3)	4.7	2.6	11.9	2.9	**1.8**
Acquired	(28.2)	9.7	(1.0)	13.7	3.5	**(2.3)**
Credited/(charged) to income statement	1.4	2.7	(3.4)	(1.7)	2.2	**1.2**
Transfers	–	–	1.4	–	–	**1.4**
Research and Development Expenditure Credit	–	–	2.5	–	–	**2.5**
Credited directly to comprehensive income	–	–	–	6.8	–	**6.8**
Share-based payments charged to equity	–	–	(0.1)	–	–	**(0.1)**
At 30 June 2015	**(47.1)**	**17.1**	**2.0**	**30.7**	**8.6**	**11.3**

Deferred tax assets and liabilities are attributed to temporary differences relating to the following:

	Assets		Liabilities		Total	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Property, plant and equipment	**20.2**	6.7	**(3.1)**	(2.0)	**17.1**	4.7
Intangible assets	**–**	–	**(47.1)**	(20.3)	**(47.1)**	(20.3)
Inventories	**2.4**	3.3	**–**	–	**2.4**	3.3
Payables	**6.5**	8.7	**(8.7)**	(11.3)	**(2.2)**	(2.6)
Financial instruments	**–**	–	**–**	–	**–**	–
Retirement benefit obligations	**30.7**	11.9	**–**	–	**30.7**	11.9
Share-based payments	**1.8**	1.9	**–**	–	**1.8**	1.9
Tax losses	**8.6**	2.9	**–**	–	**8.6**	2.9
Total	**70.2**	35.4	**(58.9)**	(33.6)	**11.3**	1.8
Set-off tax	**(58.9)**	(33.6)	**58.9**	33.6	**–**	–
Net tax assets	**11.3**	1.8	**–**	–	**11.3**	1.8

16 Inventories

	2015 £m	2014 £m
Raw materials and consumables	**23.6**	23.9
Construction contracts in progress (note 17)	**159.7**	92.4
Land and work in progress held for development	**343.4**	331.4
Other work in progress	**211.1**	22.7
	737.8	470.4

17 Construction contracts

Contracts in progress at the balance sheet date comprise contract costs incurred plus recognised profits less losses of £7,984.1m (2014: £6,875.8m), less progress billings received and receivable of £8,224.6m (2014: £7,120.2m).

The net balance is analysed into assets and liabilities as follows:

	2015 £m	2014 £m
Inventories – construction contracts in progress (note 16)	**159.7**	92.4
Trade and other payables – gross amounts due to customers (note 22)	**(400.2)**	(336.8)
	(240.5)	(244.4)

18 Trade and other receivables

	2015 £m	2014 £m
Current:		
Trade receivables	**241.8**	358.4
Construction contract retentions	**56.8**	86.3
Amounts receivable from joint ventures	**20.3**	4.2
Other receivables	**91.1**	67.1
Prepayments and accrued income	**107.0**	59.1
Other taxation and social security	**18.3**	11.3
	535.3	586.4
Non-current:		
Construction contract retentions	**21.5**	12.0
Other receivables	**9.9**	11.5
	31.4	23.5

19 Non-current assets held for sale and discontinued operations

The assets and liabilities related to Kier FPS Limited ('F&PS') have been classified as held for sale, as discussions were well advanced at the year end and the transaction completed on 1 July 2015.

The assets and liabilities of Kier Minerals Ltd ('KML') have been classified as held for sale and discontinued, discussions to sell were well advanced at the year end and the Group has made a strategic decision to exit from its UK mining operations, which constitute a separate major line of business for the Group. KML is expected to be sold in the first half of FY16.

The Group's interest in two of its property ventures (Kier Catterick Limited ('KCL') and Justice Support Services (Norfolk and Suffolk) Holdings Limited ('JSS')) are also held for sale. JSS was also held for sale at the previous balance sheet date, however did not complete during FY15 due to a delay in finalising the details of sale. The Group is now at an advanced stage of a sale process and completion is likely in the first half of FY16, therefore JSS continues to be presented as held for sale and not fully consolidated.

(a) Assets of disposal group classified as held for sale

	2015					2014
	F&PS £m	KML £m	KCL £m	JSS £m	Total £m	JSS £m
Property, plant and equipment	45.5	13.7	16.7	–	75.9	–
Goodwill	–	–	–	–	–	–
Other intangibles	–	–	9.0	–	9.0	–
Inventory	0.3	–	–	–	0.3	–
Other current assets	17.0	17.5	0.8	73.4	108.7	72.8
Total	62.8	31.2	26.5	73.4	193.9	72.8

(b) Liabilities of disposal group classified as held for sale

	2015					2014
	F&PS £m	KML £m	KCL £m	JSS £m	Total £m	JSS £m
Trade and other payables	(17.6)	(0.2)	–	(6.9)	(24.7)	(5.7)
Other current liabilities (including borrowings)	(32.1)	(27.5)	(17.5)	(55.3)	(132.4)	(56.7)
Provisions	–	(10.9)	–	–	(10.9)	–
Total	(49.7)	(38.6)	(17.5)	(62.2)	(168.0)	(62.4)
Net assets held for sale	13.1	(7.4)	9.0	11.2	25.9	10.4

(c) Result of discontinued operations

Analysis of the result of the UK mining operations and the result recognised on the re-measurement of the associated assets, is as follows:

	2015 £m	2014 £m
Revenue	20.6	47.4
Operating costs	(22.5)	(46.7)
Operating (loss)/profit	(1.9)	0.7
Finance costs	(1.0)	(1.3)
Loss before tax	(2.9)	(0.6)
Tax	0.7	(0.4)
Loss after tax of discontinued operations	(2.2)	(1.0)
Loss before tax recognised on the re-measurement of net assets of discontinued activities to realisable value	(22.9)	–
Tax	1.1	–
Loss after tax recognised on the re-measurement of net assets of discontinued activities to realisable value	(21.8)	–
Loss for the year from discontinued operations	(24.0)	(1.0)

19 Non-current assets held for sale and discontinued operations continued

(d) Cash flows from discontinued operations

	2015 £m	2014 £m
Operating cash flows	**1.3**	(7.4)
Investing cash flows	**(1.2)**	(2.0)
Financing cash flows	**(0.2)**	(0.2)
Total cash flows	**(0.1)**	(9.6)

20 Cash, cash equivalents and borrowings

	2015 £m	2014 £m
Cash and cash equivalents – bank balances and cash in hand	**254.0**	112.4
Borrowings due within one year	**–**	(39.8)
Borrowings due after one year	**(394.8)**	(195.4)
Net borrowings	**(140.8)**	(122.8)

Cash and cash equivalents include £78.6m (2014: £31.9m) being the Group's share of cash and cash equivalents held by joint operations, £67.3m (2014: £80.4m) of cash that cannot be offset against other Group bank balances and £0.2m of restricted cash (2014: £0.1m).

Cash and cash equivalents are subject to Group-wide cash pooling arrangements. On a gross basis, cash and cash equivalents were £1,595.6m (2014: £665.8m) and overdraft £1,341.6m (2014: £553.4m).

Information on borrowings is detailed in note 27.

21 Finance lease obligations

	2015			2014		
	Future minimum lease payments £m	**Interest £m**	**Present value of minimum lease payments £m**	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
At 1 July	**92.4**	**(5.4)**	**87.0**	14.8	(1.1)	13.7
New obligations	**17.7**	**(0.8)**	**16.9**	43.1	(2.8)	40.3
Acquired obligations	**–**	**–**	**–**	66.8	(4.2)	62.6
Repayments	**(34.8)**	**2.6**	**(32.2)**	(32.3)	2.7	(29.6)
Transferred to assets held for sale	**(32.7)**	**1.6**	**(31.1)**	–	–	–
At 30 June	**42.6**	**(2.0)**	**40.6**	92.4	(5.4)	87.0

Finance lease liabilities are payable as follows:

	2015			2014		
	Future minimum lease payments £m	**Interest £m**	**Present value of minimum lease payments £m**	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
Less than one year	**15.9**	**(1.0)**	**14.9**	29.5	(1.9)	27.6
Between two and five years	**26.7**	**(1.0)**	**25.7**	61.7	(3.5)	58.2
Over five years	**–**	**–**	**–**	1.2	–	1.2
At 30 June	**42.6**	**(2.0)**	**40.6**	92.4	(5.4)	87.0

22 Trade and other payables

	2015 £m	2014 £m
Current:		
Trade payables	**437.9**	338.8
Sub-contract retentions	**52.9**	49.5
Construction contract balances	**400.2**	336.8
Deferred consideration on acquisitions	**–**	1.0
Other taxation and social security	**53.5**	37.2
Other payables	**77.1**	34.7
Accruals and deferred income	**253.3**	170.4
Payments received on account	**39.4**	13.0
Due to external joint ventures	**–**	1.3
	1,314.3	982.7
Non-current:		
Trade payables	**1.5**	0.9
Sub-contract retentions	**9.5**	6.3
Accruals and deferred income	**0.4**	2.1
	11.4	9.3

23 Provisions

	2015				2014			
	Insurance claims £m	**Restoration of mining sites £m**	**Other provisions £m**	**Total £m**	Insurance claims £m	Restoration of mining sites £m	Other provisions £m	Total £m
At 1 July	**17.4**	**17.8**	**48.5**	**83.7**	27.2	16.8	13.4	57.4
(Charged)/credited to income statement	**5.9**	**–**	**(10.3)**	**(4.4)**	8.4	–	0.8	9.2
Acquired	**5.2**	**–**	**13.9**	**19.1**	–	–	56.5	56.5
Utilised	**(8.3)**	**(7.7)**	**(15.2)**	**(31.2)**	(10.2)	–	(28.2)	(38.4)
Unwinding of discount	**–**	**0.8**	**3.6**	**4.4**	–	1.1	4.9	6.0
Transfers	**2.1**	**(10.9)**[1]	**(4.1)**	**(12.9)**	(8.0)	(0.1)	1.1	(7.0)
At 30 June	**22.3**	**–**	**36.4**	**58.7**	17.4	17.8	48.5	83.7

[1] Transfer to Assets held for resale (see note 19).

Insurance provisions are in respect of legal and other disputes in various Group companies.

Mining provisions represent the cost of restoration of opencast mining activities; this provision has been transferred to the disposal group (see note 19) as the Group is in the process of exiting from its UK mining operations.

Other provisions primarily represent contractual obligations on cessation of certain contracts and fair value provisions.

It is anticipated that the amounts provided will be utilised as follows:

	2015 £m	2014 £m
Due within one year	**13.1**	27.9
Due after one year	**45.6**	55.8
	58.7	83.7

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 other provisions are expected to occur over the next 11 years.

24 Share capital and reserves

Share capital

The share capital of the Company comprises:

	2015		2014	
	Number	**£m**	Number	£m
Issued and fully paid ordinary shares of 1 pence each	**95,159,247**	**1.0**	55,264,354	0.6

On 2 June 2015, to fund the Mouchel acquisition, the business raised £340.2m, from a 5 for 7 rights issue, issuing 39,646,692 new shares at 858 pence per share, at a premium to nominal value of £311.6m. Costs related to the rights issue placing (£8.1m) have been deducted from share premium. See note 30 for further details. During the year 65,358 shares were issued as a scrip dividend alternative at a premium of £1.1m and 182,843 shares under the Sharesave Scheme at a premium of £2.1m.

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 tax.

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 IFRS1, this reserve was set to nil at 1 July 2004.

Merger reserve

The merger reserve arose on the shares issued at a premium to acquire May Gurney on 8 July 2013.

25 Share-based payments

Options and awards over the Company's ordinary shares at 30 June 2015 were as follows:

				Formerly May Gurney				
	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	LTIP 2013 award	LTIP 2014 award	LTIP 2015 award	
Date of grant	27 Apr 2012	3 May 2013	31 October 2014	30 July 2012	13 Sept 2012	21 Oct 2013	22 Oct 2014	**Total**
Awards outstanding at 30 June 2015								
– directors	–	–	–	–	130,851	98,690	146,045	**375,586**
– employees	373,139	364,955	762,213	133,650	507,098	544,657	836,446	**3,522,158**
	373,139	**364,955**	**762,213**	**133,650**	**637,949**	**643,347**	**982,491**	**3,897,744**
Exercise price (pence)	1,050	1,050	1,450	743	nil	nil	nil	

Sharesave Scheme

762,213 options were granted in the year (2014: nil). Options under the Sharesave Scheme are all equity settled. The weighted average market price of Kier Group plc shares at the date of exercise of options was 1,377 pence.

Long Term Incentive Plan

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. Awards under the LTIP are all equity settled.

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 and May Gurney Group Trustees Ltd Employee Share Ownership Plan Trust rather than from the issue of new shares. These shares are accounted for as a deduction from retained earnings.

	2015		2014	
	Number of shares	**Value £m**	Number of shares	Value £m
At 1 July	**736,792**	**9.3**	455,686	6.1
Acquired as a consequence of the rights issue	**122,575**	**–**	–	–
May Gurney at date of acquisition	**–**	**–**	519,881	6.0
Issued in satisfaction of awards and other schemes	**(177,864)**	**(1.9)**	(238,775)	(2.8)
At 30 June	**681,503**	**7.4**	736,792	9.3

The market value of these shares at 30 June 2015 was £9.7m (2014: £13.0m). 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 84 to 106.

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 total shareholder return ('TSR') element of the LTIP which is based on a stochastic model.

Sharesave Scheme

Date of grant	27 April 2012	3 May 2013	31 October 2014	Formerly May Gurney 30 July 2012
Share price at grant (pence)	1,172	1,187	1,490	1,268
Exercise price (pence)	1,050	1,050	1,450	743
Option life (years)	3.0	3.0	3.0	2.36
Expected volatility	32.8%	27.2%	27.1%	27.8%
Dividend yield	5.6%	5.6%	4.8%	5.2%
Risk-free interest rate	0.7%	0.4%	1.1%	0.5%
Value per option (pence):				
At grant	209.7	174.6	200.4	419.7
Restated for rights issue (see note 24)	167.6	139.5	160.1	335.4

Former options under the May Gurney scheme granted to May Gurney employees were converted to options over Kier Group plc shares at the acquisition date. The option life shown above is the period from acquisition.

Long Term Incentive Plan

Date of grant	13 September 2012 (EPS element)	13 September 2012 (TSR element)	21 October 2013 (EPS element)	21 October 2013 (TSR element)	22 October 2014 (EPS element)	22 October 2014 (TSR element)
Share price at grant (pence)	1,399	1,399	1,797	1,797	1,519	1,519
Exercise price	nil	nil	nil	nil	nil	nil
Option life (years)	3.0	3.0	3.0	3.0	3.0	3.0
Expected volatility	n/a	28.1%	n/a	28.6%	n/a	24.6%
Dividend yield	4.7%	4.7%	3.8%	3.8%	4.7%	4.7%
Risk-free interest rate	n/a	0.4%	n/a	0.8%	n/a	1.0%
Value per option (pence):						
At grant	1,214.3	627.8	1,604.2	1,366.7	1,317.7	756.8
Restated for rights issue (see note 24)	970.4	501.7	1,281.9	1,092.1	1,053.0	604.8

The value per option represents the fair value of the option less the consideration payable, as adjusted for the bonus factor arising on the rights issue in the year.

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 IFRS2 'Share-based Payments'.

25 Share-based payments continued

The performance conditions of the EPS element are non-market conditions under IFRS2. 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.

£3.4m relating to share-based payments has been recognised in the income statement as employee costs (2014: £4.0m). Included in other payables is an amount of £0.3m (2014: £0.5m) relating to provisions for employer's national insurance.

A reconciliation of option movements is shown below:

	2015		2014	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at 1 July	**2,743,955**	**404.3p**	3,057,902	464.9p
Converted from May Gurney schemes	**–**	**–**	345,201	744.0p
Forfeited	**(662,477)**	**632.5p**	(636,895)	265.8p
Exercised	**(291,651)**	**591.9p**	(592,482)	674.6p
Granted	**1,326,442**	**575.9p**	570,229	–
Impact of rights issue	**781,475**	**–**	–	–
Outstanding at 30 June	**3,897,744**	**405.8p**	2,743,955	404.3p
Exercisable at 30 June	**–**	**–**	–	–

The options outstanding at 30 June 2015 have a weighted average remaining contractual life of 1.32 years (2014: 1.27 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 operations and joint ventures, entered into in the normal course of business.

27 Financial instruments

Capital risk management

The Group's capital management objectives are: to ensure the Group's ability to continue as a going concern; to optimise the capital structure in order to minimise the cost of capital; and to maintain a strong balance sheet to support business development and tender qualification. The four operating divisions of the Group have complementary capital characteristics, with the Construction division, and to a lesser extent the Services division, generating a net cash surplus, whilst the Property and Residential divisions require net capital to fund developments. The Group's capital management strategy is to use a blend of capital types with different risk, return and maturity profiles to support the operating divisions and deliver the Group's capital management objectives. The Group's overall capital risk management strategy remains unchanged from 2014.

The capital structure of the Group comprises: equity, consisting of share capital, share premium, retained earnings and other reserves as disclosed in the consolidated statement of changes in equity; and cash, cash equivalents and borrowings as disclosed in note 20 and described further below. The Group forecasts and monitors short, medium and longer-term capital needs on a regular basis and adjusts its capital structure as required through the payment of dividends to shareholders, the issue of new share capital and the increase or repayment of borrowings. All investment decisions are made with regard to the Group's weighted average cost of capital and typically a pre-tax annualised return of at least 15% is required to ensure such investments are value enhancing for shareholders.

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 any potential adverse effects on financial performance and net assets.

The Group's treasury team manages the principal financial risks within policies and operating limits 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. The Group's most significant clients are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the client.

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:

	2015 £m	2014 £m
Provision as at 1 July	**2.3**	1.3
Acquired in the year	**11.6**	1.8
Charged/(credited) to the income statement	**0.1**	(0.8)
Provision as at 30 June	**14.0**	2.3

There were £109.1m (2014: £48.8m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £64.2m (2014: £37.8m) had been received by the end of August 2015. There are no indications as at 30 June 2015 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 2015 that were overdue for payment was 45.1% (2014: 13.6%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Construction	22 days (2014: 36 days)
Services	23 days (2014: 41 days)

Overall, the Group considers that it is not exposed to significant credit risk.

27 Financial instruments continued

Market risk

Interest rate risk

The Group has borrowing facilities to finance short-term working capital requirements and term loans to finance medium-term capital requirements, which carry interest at floating rates, at a margin over LIBOR. The Group's borrowings can be analysed as follows:

	2015 £m	2014 £m
Fixed rate	**182.7**	62.7
Variable rate	**212.1**	172.5
	394.8	235.2

In addition, a number of the Group's joint ventures have entered into interest rate swaps where there is significant interest rate.

Foreign currency risk

The Group operates primarily within the UK such that its exposure to currency risk is not considered to be significant. Where significant foreign currency exposures are identified, these are hedged using forward foreign exchange contracts or swaps.

Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a syndicate of relationship banks in the form of unsecured committed borrowing facilities. The amount of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels.

Derivative financial instruments

At 30 June 2015 **Discontinued operations**	Current liabilities £m	Non-current liabilities £m	**Total liabilities £m**
Fuel price forward contracts	0.4	–	**0.4**

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.

During 2013 Kier Group plc entered into three cross-currency swaps to hedge the currency risk on a US dollar denominated loan, nominal value US$28m. During 2014 Kier Group plc entered into four cross-currency swaps to hedge the currency risk on a US dollar denominated loan, nominal value US$116m. These swaps have continued to meet the criteria for hedge accounting and as a result have been recognised directly in equity.

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur, how those cash flows will impact the income statement and the fair value of the related hedging instruments:

		Expected cash flows				
Continuing operations	**Fair value £m**	**Total £m**	**0–1 years £m**	**1–2 years £m**	**2–5 years £m**	**More than 5 years £m**
Cross-currency swaps:						
Liabilities	1.5	34.6	4.1	4.1	12.1	14.3

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 2015 the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £123.4m. The Group's share of the total net fair value liability of these interest rate derivatives at 30 June 2015, based on quoted prices in active markets, amounted to £22.0m which, together with the related deferred tax asset of £4.4m, have met the criteria for hedge accounting and as a result have been recognised directly in equity.

Financial assets

Loans and receivables at amortised cost, cash and cash equivalents:	**2015 £m**	2014 £m
Cash and cash equivalents	**254.0**	112.4
Trade and other receivables (including £31.4m due after more than one year) – excluding prepayments	**459.7**	550.8
Loans to joint ventures	**33.0**	7.7
	746.7	670.9

Included in the above are £31.4m of trade and other receivables due after more than one year.

Financial liabilities – analysis of maturity dates

At 30 June 2015 the Group had the following financial liabilities together with the maturity profile of their contractual cash flows:

						Continuing operations	Discontinued operations
30 June 2015	**Trade and other payables[1] £m**	**Deferred consideration on acquisition £m**	**Borrowings £m**	**Finance lease obligations £m**	**Derivative financial instruments £m**	**Total £m**	**Derivative financial instruments £m**
Carrying value	**1,232.8**	**–**	**394.8**	**40.6**	**1.5**	**1,669.7**	**0.4**
Contractual cash flows							
Less than one year	**1,221.4**	**–**	**9.4**	**15.9**	**4.1**	**1,250.8**	**0.4**
One to two years	**11.4**	**–**	**39.2**	**17.0**	**4.1**	**71.7**	**–**
Two to three years	**–**	**–**	**8.8**	**7.0**	**4.1**	**19.9**	**–**
Three to four years	**–**	**–**	**8.8**	**2.1**	**4.1**	**15.0**	**–**
Four to five years	**–**	**–**	**218.2**	**0.6**	**4.1**	**222.9**	**–**
Over five years	**–**	**–**	**169.4**	**–**	**14.1**	**183.5**	**–**
	1,232.8	**–**	**453.8**	**42.6**	**34.6**	**1,763.8**	**0.4**
30 June 2014							
Carrying value	940.8	1.0	235.2	87.0	1.7	1,265.7	0.4
Contractual cash flows							
Less than one year	931.5	1.0	45.0	29.5	0.9	1,007.9	0.1
One to two years	9.3	–	5.2	24.3	0.9	39.7	0.1
Two to three years	–	–	84.1	21.0	0.9	106.0	0.2
Three to four years	–	–	3.5	11.4	0.9	15.8	–
Four to five years	–	–	55.1	5.0	0.9	61.0	–
Over five years	–	–	66.7	1.2	2.2	70.1	–
	940.8	1.0	259.6	92.4	6.7	1,300.5	0.4

[1] Trade and other payables excludes deferred consideration, deferred income, taxes and social security and payments on account.

There is no material difference between the carrying value and fair value of the Group's financial assets and liabilities.

The Group's derivatives are classified as level 2.

Borrowings and borrowing facilities

The Group has the following unsecured committed facilities:

- Revolving credit facility of £380.0m, at a margin over LIBOR, due for renewal in June 2020, £185.0m drawn at 30 June 2015 (2014: £55.0);
- One term loan at a margin over LIBOR, £30.0m repayable January 2017, fully drawn at 30 June 2015, £30.0m (2014: £30.0m); and
- Four loan notes, principal amounts of £45.0m, US$28.0m, £47.0m and US$116.0m, with fixed coupons of between 4.1% and 4.9%, repayable in four repayments, December 2019, December 2022, November 2021 and November 2024, fully drawn at 30 June 2015, £182.7m (2014: £62.7m).

In addition the Group has an unsecured overdraft of £45.0m (2014: £45.0m), at a margin over LIBOR, repayable on demand, £nil drawn at 30 June 2015 (2014: £39.8m).

The committed facilities are subject to certain covenants linked to the Group's financing structure, specifically regarding the ratios of debt to EBITDA, interest cover, and consolidated net worth. The Group has complied with these covenants throughout the period.

Included within borrowings are capitalised loan fees of £2.8m (2014: £2.3m).

Notes to the consolidated financial statements
For the year ended 30 June 2015 continued

28 Financial and capital commitments

	2015 £m	2014 £m
Commitments for capital expenditure	**6.3**	7.3
Commitments for equity and subordinate debt in joint ventures	**16.3**	23.4
	22.6	30.7

Non-cancellable operating lease rentals are payable as follows:

	2015		2014	
	Property £m	**Plant and machinery £m**	Property £m	Plant and machinery £m
Within one year	**10.1**	**22.1**	6.3	19.7
Between one and five years	**25.2**	**32.1**	16.4	23.9
Over five years	**20.0**	**7.0**	11.1	1.6
	55.3	**61.2**	33.8	45.2

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period beyond 30 June 2015 of 14 years. Vehicle leases typically run for a period of four years. No leases include contingent rentals.

29 Related parties
Identity of related parties
The Group has a related party relationship with its 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 84 to 106.

In addition to their salaries, the Group also provides non-cash benefits to directors and contributes to their pension arrangements as disclosed on page 95. Key management personnel also participate in the Group's share option programme (see note 25).

Key management personnel compensation comprised:

	2015 £m	2014 £m
Emoluments as analysed in the directors' remuneration report	**3.3**	3.2
Termination payments	**0.2**	–
Employer's national insurance contributions	**0.5**	0.4
Total short-term employment benefits	**4.0**	3.6
Share-based payment charge	**0.3**	0.7
	4.3	4.3

Transactions with pension schemes
Details of transactions between the Group and pension schemes in which its employees participate are detailed in note 8.

Transactions with joint ventures

	2015 £m	2014 £m
Staff and associated costs	**1.8**	38.1
Management services	**0.7**	0.5
Interest on loans to joint ventures	**1.0**	1.5
	3.5	40.1

Amounts due from joint ventures are analysed below:

	2015 £m	2014 £m
Saudi Comedat Company Limited	**(2.2)**	–
Staffordshire Property Partnership	**0.1**	–
Kier Trade City Holdco 1 LLP	**7.4**	–
Kier Reading Holdco 1 LLP	**14.6**	–
3 Sovereign Square Holdings 1 LLP	**1.8**	–
Salford Village Limited	**2.0**	2.0
Biogen Holdings Limited	**3.8**	(2.0)
Kier Hammersmith Holdco Limited	**6.2**	6.6
Watford Health Campus Partnership LLP	**0.1**	0.2
Tri-Link 140 Holdings 1 LLP	**(0.8)**	–
Information Resources (Oldham) Limited	**–**	0.9
	33.0	7.7

30 Acquisitions and disposals

(a) Summary of consideration paid and payable in respect of acquisitions

	Beco Limited £m	Kier Develop-ments Limited £m	North Tyneside Council £m	May Gurney £m	Mouchel £m	Southdale £m	Total £m
Balance payable at 30 June 2013	0.1	25.7	1.9	–	–	–	**27.7**
Acquisition of May Gurney	–	–	–	38.5	–	–	**38.5**
Paid during the year to 30 June 2014	(0.1)	(26.0)	(1.0)	(38.5)	–	–	**(65.6)**
Unwinding of discount	–	0.3	0.1	–	–	–	**0.4**
Balance payable at 30 June 2014	–	–	1.0	–	–	–	**1.0**
Acquisition of Mouchel (note 30b)	–	–	–	–	260.6	–	**260.6**
Acquisition of Southdale (note 30d)	–	–	–	–	–	1.0	**1.0**
Paid during the year to 30 June 2015	–	–	(1.0)	–	(260.6)	(1.0)	**(262.6)**
Balance payable at 30 June 2015	**–**	**–**	**–**	**–**	**–**	**–**	**–**

30 Acquisitions and disposals continued

(b) Acquisition of Mouchel

The Group purchased the entire share capital of MRBL Limited ('Mouchel') on 8 June 2015 for a total consideration of £260.6m. Mouchel is an international infrastructure and business services group. It provides advisory, design, project delivery and managed services to the highways and transportation, local government, property, emergency services, health, education and utilities markets in the UK, the Middle East and Australia. It is the leading provider of repair and maintenance services to the UK strategic road network. The acquisition represented an excellent opportunity to accelerate Kier's strategy for growth in the infrastructure sector. The Kier Board believes the acquisition is highly complementary and positions Kier as a sector leader in the growing UK highways maintenance and management market.

The fair value of the intangible assets acquired represents the fair value of customer contracts at the date of acquisition. Due to the proximity of the acquisition to Kier Group plc's reporting date, the fair values of assets and liabilities acquired are provisional to allow for further adjustments in the measurement period.

The goodwill arising on acquisition is attributable to the knowledge and expertise of the assembled workforce and the operating synergies that arise from the Group's strengthened market position. None of the goodwill recognised is expected to be deductible for tax purposes.

£13.5m of acquisition costs were incurred in the year and expensed to the income statement as a non-underlying item.

	Provisional fair value to the Group £m
Intangible assets	145.2
Property, plant and equipment	7.4
Investment in joint ventures	0.4
Deferred tax assets	(2.3)
Inventories	76.7
Trade and other receivables	49.3
Cash and cash equivalents	32.2
Trade and other payables	(156.4)
Borrowings	(94.0)
Corporation tax payable	(11.5)
Retirement benefit obligations	(68.6)
Provisions	(19.1)
	(40.7)
Goodwill	301.3
Total assets acquired	**260.6**

Satisfied by:	
Cash consideration	**260.6**

The pro forma consolidated results of the Group, as if the acquisition of Mouchel had been made at the beginning of the year, would include revenue from continuing operations of £4,033.9m (compared with the Group revenue of £3,275.9m) and underlying profit before taxation of £99.5m (compared with the reported underlying profit before taxation of £85.9m). In preparing the pro forma results, revenue and costs have been included as if the businesses were acquired on 1 July 2014 and the inter-company transactions have been eliminated. This information is not necessarily indicative of the results of the combined Group that would have occurred had the purchase actually been made at the beginning of the year, or indicative of the future results of the combined Group.

The Mouchel business contributed to the Group revenue of £55.6m and underlying profit before taxation of £2.6m for the period 9 June 2015 to 30 June 2015.

(c) Deemed disposal of investment in joint venture and subsequent acquisition as a subsidiary of Lingfield (Catterick) Limited

On 19 June 2015 the Group, through its subsidiary Kier Property Developments Limited, acquired 100% of the share capital of Lingfield (Catterick) Limited ('LCL'). LCL had previously been held as a joint venture of which the Group had a 50% holding. The remaining 50% of the share capital of LCL was acquired from the joint venture partner for £4.5m, and the entity renamed Kier (Catterick) Limited ('KCL'). This transaction has been treated as a deemed disposal of a joint venture (see below) and subsequent acquisition of a subsidiary. A gain of £3.8m arose on the deemed disposal of the joint venture.

The gain on deemed disposal of the joint venture is calculated as follows:

	£m
Deemed consideration	4.5
Cost of investment	(0.7)
Gain on deemed disposal	**3.8**

Provisional fair values of assets and liabilities at acquisition:

	Provisional carrying value at acquisition £m
Non-current assets	16.7
Current assets	0.3
Cash at bank	0.5
Current liabilities	(3.3)
Borrowings	(14.2)
	–
Goodwill	9.0
Total assets acquired	**9.0**

Satisifed by:	
Cash consideration	4.5
Deemed consideration	4.5
Total consideration	**9.0**

Subsequent to the acquisition on 19 June 2015 but before 30 June, the Group decided to dispose of KCL within 12 months of the balance sheet date and negotiations are ongoing with interested parties. As a result at the balance sheet date KCL is held as an asset for sale.

Notes to the consolidated financial statements
For the year ended 30 June 2015 continued

30 Acquisitions and disposals continued
(d) Acquisition of trade and assets of Southdale Limited
On 29 April 2015 the Group, through its subsidiary Kier Living Limited, acquired certain assets and the business of the housing and construction operations of Southdale Limited. The consideration of £1.0m representing the fair value of the net assets acquired was paid wholly in cash in April 2015.

Provisional fair values of assets and liabilities at acquisition:

	Provisional carrying value to the Group £m
Inventories	1.1
Trade and other receivables	0.6
Trade and other payables	(1.5)
	0.2
Goodwill	0.8
Total assets acquired	**1.0**

Satisfied by:	
Cash consideration	**1.0**

(e) Disposal of investments in joint ventures
During the year the Group, through its subsidiary Kier NR Limited, disposed of its interests in Solum Regeneration Limited Partnership and Solum Regeneration (GP) Limited for a cash consideration of £10.0m. Existing projects will continue to be taken forward under the existing guaranteed funding arrangement and future projects will continue to be considered for development in partnership with Network Rail.

The Group, through its subsidiaries Kier Developments Limited and Kier Project Investment Limited, also sold its investments in the following joint ventures: Lingfield (Catterick) Limited (see note (30c)), Information Resources (Oldham) Holdings Limited and Information Resources (Oldham) Limited.

The Property division typically uses joint ventures to structure transactions, and the Group considers disposals of such vehicles to be underlying trading which are in the underlying course of business.

The disposal proceeds can be reconciled to the profit on disposal as follows:

	2015 £m	2014 £m
Sales proceeds and deemed consideration	**18.7**	17.3
Book value of net assets and loans to joint ventures	**(2.4)**	(9.4)
Intangible assets	**(1.2)**	(1.8)
Sale costs	**(0.3)**	–
Profit on disposal	**14.8**	6.1

31 Subsequent events
On 1 July 2015 the Group sold its investment in Kier FPS Limited for £17.9m, giving rise to an overall loss on disposal of £2.2m, after disposal costs of £3.4m were incurred in the current financial year and were expensed to the income statement as incurred.

Company balance sheet
At 30 June 2015
(registered company number 2708030)

	Notes	2015 £m	2014 £m
Fixed assets			
Investments in subsidiaries	5	**165.3**	384.2
Amounts due from subsidiary undertakings		**732.3**	–
		897.6	384.2
Current assets			
Debtors	6	**3.0**	3.6
Cash and cash equivalents		**248.0**	156.7
		251.0	160.3
Current liabilities			
Creditors – amounts falling due within one year	7	**(26.9)**	(29.7)
Net current assets		**224.1**	130.6
Total assets less current liabilities		**1,121.7**	514.8
Non-current liabilities			
Creditors – amounts falling due after more than one year	7	**(394.8)**	(195.4)
Net assets		**726.9**	319.4
Shareholders' funds			
Share capital	8	**1.0**	0.6
Share premium	9	**408.5**	73.7
Merger reserve	9	**134.8**	184.8
Capital redemption reserve	9	**2.7**	2.7
Profit and loss account	9	**179.9**	57.6
Total shareholders' funds	10	**726.9**	319.4

The financial statements on pages 161 to 163 were approved by the Board of directors on 16 September 2015 and were signed on its behalf by:

Haydn Mursell
Director

Bev Dew
Director

Notes to the Company financial statements
For the year ended 30 June 2015

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 applicable accounting standards and the Companies Act 2006.

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 FRS19 '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 the profit and loss account.

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.

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 IFRS7 which comply with FRS29 'Financial Instruments and Disclosures'. Consequently, the Company has taken advantage of certain exemptions in FRS29 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 £0.1m (2014: £0.1m).

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 84 to 106. 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 30 June 2014	384.2
Disposals	(218.9)[1]
At 30 June 2015	**165.3**
Net book value at	
30 June 2015	**165.3**
30 June 2014	384.2

1 The Group restructured its ownership of Kier MGIS Limited selling its interest to Kier Limited for book value (see note 9).

6 Debtors

	2015 £m	2014 £m
Other debtors	**1.6**	2.6
Deferred tax	**1.4**	1.0
	3.0	3.6

7 Creditors

	2015 £m	2014 £m
Amounts falling due within one year:		
Amounts due to subsidiary undertakings	**23.2**	27.8
Corporation tax	**2.6**	0.7
Other creditors	**1.1**	1.2
	26.9	29.7
Amounts falling due after more than one year:		
Borrowings	**394.8**	195.4

Further details on borrowings are included in note 27 to the consolidated financial statements.

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 capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 30 June 2013	0.4	63.3	1.2	2.7	38.5	**106.1**
Issue of own shares	0.2	10.4	183.6	–	–	**194.2**
Movement in provision for share-based payments	–	–	–	–	3.7	**3.7**
Purchase of own shares	–	–	–	–	(1.1)	**(1.1)**
Profit for the year	–	–	–	–	53.8	**53.8**
Dividends paid	–	–	–	–	(37.3)	**(37.3)**
At 30 June 2014	0.6	73.7	184.8	2.7	57.6	**319.4**
Profit for the year	–	–	–	–	109.8	**109.8**
Dividends paid	–	–	–	–	(40.2)	**(40.2)**
Issue of own shares	0.4	334.8	–	–	–	**335.2**
Transfers	–	–	(50.0)[1]	–	50.0[1]	**-**
Share-based payments	–	–	–	–	3.4	**3.4**
Purchase of own shares	–	–	–	–	(0.7)	**(0.7)**
At 30 June 2015	**1.0**	**408.5**	**134.8**	**2.7**	**179.9**	**726.9**

[1] The Group restructured its ownership of Kier MGIS Limited to Kier Limited for a nil profit loss, for which it was paid £50.0m from free cash and entered into a long-term loan for the balance of consideration. As a consequence £50m of the merger reserve was transferred to retained earnings.

Included in the profit and loss account is the balance on the sharescheme reserve which comprises the investment in own shares of £3.7m (2014: £4.7m) and a credit balance on the sharescheme reserve of £7.4m (2014: £7.3m).

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.

Principal operating subsidiaries and business units

The principal operating subsidiaries and business units included in the consolidated financial statements as at 30 June 2015 are listed below. Unless indicated otherwise, these undertakings are wholly owned and incorporated in England and Wales.

Construction

Kier Construction Limited
Building
- Central
- Eastern
- London
- Major Projects
- Northern
- Scotland
- Southern
- Western & Wales
- Strategic Frameworks and Alliances

Specialist businesses
- Engineering
- Process & Engineering

Kier Infrastructure and Overseas Limited

Services

Kier Services Limited
Housing Maintenance
- Kier Harlow Limited[2] (80%)
- Kier Islington Limited
- Kier North Tyneside Limited[2] (80%)
- Kier Sheffield LLP[2] (40%)
- Kier Stoke Limited[2] (80.1%)

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
- Tempsford Insurance Company Limited[4] (incorporated in Guernsey)

Plant and Fleet Management
- Kier Plant Limited
- Kier Fleet Services Limited

Kier May Gurney
- Kier MGIS Limited
- Kier MG Limited
- Kier MG Estates Limited
- Kier MG Recycling CIC Limited
- Kier FPS Limited (sold July 2015)
- Tor2 Limited (80.01%)

Mouchel
- MRBL Limited
- Mouchel Limited
- EM Highways Services Limited

Property

Kier Property Limited
Kier Developments Limited
Kier Ventures Limited

Kier Project Investment Limited

Residential

Kier Living Limited
Kier Partnership Homes Limited

Corporate

Kier Limited[4]

Notes:

1. Each entity operates principally within the United Kingdom, unless indicated otherwise. Kier Infrastructure and Overseas Limited also operates in Hong Kong, the Middle East and the Carribean.
2. 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.
3. The ordinary share capital of all entities is wholly owned and held indirectly by Kier Group plc unless indicated otherwise.
4. Shares held directly by Kier Group plc.

Other subsidiaries

2020 Knowsley Limited
2020 Liverpool Limited
2020 Oldham Limited
2020 Sefton Limited
2020 St Helens Limited
2020 Wirral Limited
Absolute Forbury Limited
Absolute Property Limited
Absolute Swindon Limited
A C Chesters & Son Limited
AK Student Living Limited (50%)
Allison Homes Eastern Limited
Atkins Odlin Consulting Engineers Limited
Ayton Asphalte Company Limited
Bellwinch Homes Limited
Bellwinch Homes (Western) Limited
Bellwinch Limited
Brazier Construction Limited
Building & Construction Company Limited
Caribbean Construction Company Limited (incorporated in Jamaica)
Caxton Integrated Services Holdings Limited
Clearbox Limited
Concordia Bath Management Company Limited
Connect 21 Community Limited
Constantine Place (Longstanton) Management Company Limited
Coombe Project Management Limited
Cowley Mill Road Management Company Limited
DownerMouchel (incorporated in Australia) Services Pty Limited (50%)
Dudley Coles Limited
ECT Engineering Limited
Elsea Park Bourne Management Company Limited
Engage Lambeth Limited (52%)
Engineered Products Limited
FDT Associates Limited
FDT Contracts Limited
FDT (Holdings) Limited
Full Circle Educational Services Limited
Gas 300 Limited
Genica Limited
Greenfinch Limited (50%)
HBS Facilities Management Limited
Heatherwood (Thetford) Management Company Limited
Hedra Group Limited
Hedra Scotland Limited (incorporated in Scotland)
Henry Jones Construction Limited
Henry Jones Limited
IEI Limited
Instal Consultants MP Limited
Javelin Construction Company Limited
J L Kier & Company Limited
J L Kier & Company (London) Limited
Justice Support Services (Norfolk and Suffolk) Holdings Limited
Justice Support Services (Norfolk and Suffolk) Limited
Kier Benefits Limited
Kier Build Limited
Kier Building Limited
Kier Business Services Limited
Kier Caribbean & Industrial Limited
Kier (Catterick) Limited
Kier CB Limited
Kier Commercial Investments Limited
Kier Commercial UKSC Limited
Kier Construction Limited (incorporated in St Kitts)

Kier Construction SA
(incorporated in Haiti)
Kier Engineering Services Limited
Kier Group AESOP Trustees Limited[4]
Kier Group Trustees Limited[4]
Kier Homes Caledonia Limited
Kier Homes Northern Limited
Kier International (Investments) Limited
Kier International Limited
Kier International SRL
(incorporated in Romania)
Kier Jamaica Development Limited
Kier (Kent) PSP Limited
Kier Land Limited
Kier Living Limited[4]
Kier London Limited
Kier MG Building Limited
Kier MG Group Limited
Kier MG (Regional) Limited
Kier MG (Technical Services) Limited
Kier MG Trustees Limited
Kier Midlands Limited
Kier Minerals Limited
Kier Mining Investments Limited
Kier Mortimer Limited
Kier National Limited
Kier North East Limited
Kier (NR) Limited
Kier Overseas (Fifteen) Limited
Kier Overseas (Four) Limited
Kier Overseas (Fourteen) Limited
Kier Overseas (Nine) Limited
Kier Overseas (Nineteen) Limited
Kier Overseas (Seventeen) Limited
Kier Overseas (Six) Limited
Kier Overseas (Twelve) Limited
Kier Overseas (Twenty-Four) Limited
Kier Overseas (Twenty-Three) Limited
Kier Overseas (Two) Limited
Kier Professional Services Limited
Kier Property Developments Limited
Kier Property Management Company Limited
Kier PSP (Kent) Limited
Kier Scotland Limited
(incorporated in Scotland)
Kier South East Limited
Kier Southern Limited
Kier Thurrock Limited
Kier UKSC LLP
Kier USA Inc
Kier Ventures UKSC Limited
Kier Whitehall Place Limited
KM Docklands Hotel Limited
Lambeth Learning Partnership (PSP) Limited (65%)
Land Aspects Limited
Lazenby & Wilson Limited
Liferange Limited
Marriott Limited
Mayflower Park Management Company Limited
May Gurney Social Club Limited
MGWSP Essex Limited
Michco 210 Limited
MKB Resourcing Limited
Morrell-Ixworth Limited
Moss Construction Northern Limited
Moss Construction Southern Limited
Mouchel Dormant Holdings Limited
Mouchel Engineering Consultants Private Limited
(incorporated in India)
Mouchel Ewan Limited
Mouchel Finance & Treasury Holdings Limited
Mouchel Finance Limited
Mouchel Gas 301 Limited
Mouchel Gas 302 Limited
Mouchel Holdings Limited
Mouchel Insurance Ltd (99.99%)
(incorporated in Guernsey)
Mouchel International (Jersey) Ltd
(incorporated in Jersey)
Mouchel International Limited
(incorporated in Ireland)
Mouchel Ireland Ltd
Mouchel Management Consulting Limited
Mouchel Middle East Limited (99%)
(incorporated in Hong Kong)
Mouchel Parkman Ewan Associates Limited
Mouchel Parkman Ewan Services Limited
Mouchel Parkman GB Limited
Mouchel Parkman LDA Limited
Mouchel Parkman Metro Limited
Mouchel Parkman (NI) Limited
Mouchel Parkman Property Management Limited
Mouchel Parkman Servigroup Limited
Mouchel Parkman ServiRail Construction Projects Limited
Mouchel Parkman Serviservices Limited
Mouchel Parkman Serviways Limited
Mouchel Pty Ltd
(incorporated in Australia)
Mouchel Rail Limited
Mouchel Rail No. 2 Limited
Mouchel Rail No. 3 Limited
Mouchel South Africa Pty Limited (49%)
(incorporated in South Africa)
Mouchel Traffic Support Limited
Mouchel Trustee Limited
MPHBS Limited
Newbury King & Co Limited
New Learning Limited
Norfolk Community Recycling Services Limited
Parkman Botswana (Pty) Limited (99%)
(incorporated in Botswana)
Parkman Consultants Limited
Parkman Consulting Engineers
Parkman Group Professional Services Limited
Parkman Holdings Limited
Parkman Kenya Limited
(incorporated in Kenya)
Parkman Nigeria Limited
(incorporated in Nigeria)
Parkman Scotland Limited
(incorporated in Scotland)
Parkman South East Limited
PCE Holdings Limited
PFI Street Lighting Limited
Prospect Healthcare (Ipswich) Holdings Limited
Prospect Healthcare (Ipswich) Limited
Ridham 2 Limited
Riley Builders Limited
Robert Marriott Group Limited
Saudi Kier Construction Limited
(incorporated in Saudi Arabia)
Saxonwood Bardney Management Company Limited
Sea Place Management Limited
Seaspray Property Management Company Limited
Senturion (BidCo) Limited
Senturion Group Limited
Senturion (MidCo) Limited
Senturion Trustees Limited
Sheff Schools Topco Limited
Social Power (Harlow) Holdings Limited
Social Power (Harlow) Limited
St Walstan's Management Company Limited
T Cartledge Limited
Tempsford Cedars Limited
Tempsford Holdings Limited[4]
Tempsford Oaks Limited[4]
T H Construction Limited
T J Brent Limited
Traffic Support EBT Limited
Tudor Homes (East Anglia) Limited
Turriff Contractors Limited
(incorporated in Scotland)
Turriff Group Limited
(incorporated in Scotland)
Turriff Smart Services Limited
(incorporated in Scotland)
Twigden Homes Limited
Twigden Homes Southern Limited
Underground Moling Services Limited
(incorporated in Scotland)
Usherlink Limited
Wallis Builders Limited
Wallis Limited
Wallis Western Limited
W & C French (Construction) Limited
William Moss Civil Engineering Limited
William Moss Group Limited
Wygate Management Company Limited

Principal joint arrangements

Joint ventures

Property

	Interest held
3 Sovereign Square Holdings 1 LLP	50%
3 Sovereign Square Holdings 2 LLP	50%
3 Sovereign Square LLP	50%
Alliance Community Partnership Limited (incorporated in Scotland)	10%
Biogen Gwyriad Limited	26%
Biogen Holdings Limited	50%
Biogen (UK) Limited	50%
Biogen Waen Limited	27.5%
Dragon Lane Holdings 1 LLP	50%
Dragon Lane Holdings 2 LLP	50%
Fore UK 1B LP	29%
Kent LEP 1 Limited	80%
Kier Foley Street Holdco 1 LLP	90%
Kier Foley Street Holdco 2 LLP	90%
Kier Foley Street LLP	90%
Kier Hammersmith Holdco Limited	50%
Kier Hammersmith Limited	50%
Kier Reading Holdco 1 LLP	90%
Kier Reading Holdco 2 LLP	90%
Kier Sydenham GP Holdco Limited	50%
Kier Sydenham Limited	50%
Kier Sydenham GP Limited	50%
Kier Sydenham LP	50%
Kier Sydenham Nominee Limited	50%
Kier Trade City Holdco 1 LLP	90%
Kier Trade City Holdco 2 LLP	90%
Kier Trade City LLP	90%
Kier Warth Limited	50%
Lysander Student Properties Investments Limited	50%
Lysander Student Properties Limited	50%
Lysander Student Properties Operations Limited	50%
Premier Inn Kier Limited	50%
Solum Regeneration (Bishops) LLP	50%
Solum Regeneration Epsom (GP Subsidiary) Limited	50%
Solum Regeneration Epsom (GP) Limited	50%
Solum Regeneration (Epsom) Limited Partnership	50%
Solum Regeneration Epsom (Residential) LLP	50%
Solum Regeneration (Guildford) LLP	50%
Solum Regeneration (Haywards) LLP	50%
Solum Regeneration (Kingswood) LLP	50%
Solum Regeneration (Maidstone) LLP	50%
Solum Regeneration (Redhill) LLP	50%
Solum Regeneration (Surbiton) LLP	50%
Solum Regeneration (Tanner) LLP	50%
Solum Regeneration (Tonbridge) LLP	50%
Solum Regeneration (Twickenham) LLP	50%
Solum Regeneration (Wembley) LLP	50%
Staffordshire Property Partnership Joint Venture Limited	50%
Transcend Property Limited	50%
Tri-Link 140 Holdings 1 LLP	50%
Tri-Link 140 Holdings 2 LLP	50%
Watford Health Campus Partnership LLP	50%

Long-term concession holdings under the Private Finance Initiative

	Interest held
Blue 3 (London) (Holdings) Limited	50%
Blue 3 (London) Limited	50%
Blue 3 (Staffs) (Holdings) Limited	80%
Blue 3 (Staffs) Limited	80%
Evolution (Woking) Holdings Limited	50%
Evolution (Woking) Limited	50%
Salford Village Limited	25%

Services

	Interest held
Hackney Schools for the Future Limited	40%
Mouchel Babcock Education Investments Limited	50%
Mouchel Babcock Education Services Limited	50%
Mouchel IRE Limited incorp. in Ukraine	50%
Network Information Services Limited	50%
Pevensey Coastal Defence Limited	6%
Team Van Oord Limited	25%
The Impact Partnership (Rochdale Borough) Limited	80%
The Unity Partnership Limited	67%
Vinci Mouchel Limited	50%

Construction

		Interest held
ASK Joint Venture	incorporated in UAE	49%
Besix-Kier Dabhol Société anonyme	incorporated in Belgium	40%
Kier ASGC JV	incorporated in UAE	50%
Kier Construction LLC	incorporated in Abu Dhabi	49%
Kier Dubai LLC	incorporated in UAE	49%
Kier Graham Defence Limited		50%
Rathenraw Limited		50%
Saudi Comedat Company Limited	incorporated in Saudi Arabia	25%

Principal joint operations

UK

Crossrail Contracts 300/410/435	a joint arrangement between Kier Infrastructure and Overseas Limited, BAM Nuttall Limited and Ferrovial Agroman (UK) Limited
Crossrail Contracts 501/511	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited
Deephams	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited, and Aecom Limited
Hercules	a joint arrangement between Kier Construction Limited, Kier Living Limited and Balfour Beatty
Hinkley Point C	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited
KCD	a joint arrangement between Kier MG Limited and Clancy Docwra Limited
Kier WSP	a joint arrangement between Kier MG Limited and WSP UK Limited
KMI	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited and Interserve Project Services Limited
KMI Plus	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited, Interserve Project Services Limited and Mouchel Limited
Mersey Gateway	a joint arrangement between Kier Infrastructure and Overseas Limited, Samsung C&T ECUK Limited and FCC Construccion S.A.
South Hook	a joint arrangement between Kier Infrastructure and Overseas Limited and NV Besix SA

International

The following joint operations, in which the Group participation is between 30% and 65%, operate overseas in the territory indicated:

MTRC Contract 824	a joint arrangement between Kier Infrastructure and Overseas Limited, Kaden Construction Limited and Obras Subterráneas S.A.
MTRC Contract 901	a joint arrangement between Kier Infrastructure and Overseas Limited, Laing O'Rourke Hong Kong Limited and Kaden Construction Limited

Notes:

1. Joint operations are contracted agreements to co-operate on a specific project which is an extension of the Group's existing business. Joint ventures are ongoing businesses carrying on their own trade.
2. Except where otherwise stated the companies are incorporated and operate in the United Kingdom.
3. Interests in the above joint ventures are held by subsidiary undertakings.
4. 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 (unaudited)

Continuing operations

Year ended 30 June	2015 £m	2014[3] £m	2013[3] £m	2012[3] £m	2011[3] £m
Revenue: Group and share of joint ventures	**3,351.2**	2,937.8	1,958.3	2,039.0	2,140.1
Less share of joint ventures	**(75.3)**	(30.9)	(39.8)	(38.7)	(55.8)
Group revenue	**3,275.9**	2,906.9	1,918.5	2,000.3	2,084.3
Profit					
Group operating profit[1]	**81.0**	79.6	41.9	52.8	50.2
Share of post-tax results of joint ventures	**7.9**	1.6	0.9	1.3	0.4
Profit on disposal of joint ventures	**14.8**	6.1	9.8	6.7	5.9
Underlying operating profit[1]	**103.7**	87.3	52.6	60.8	56.5
Underlying net finance costs[1]	**(17.8)**	(13.6)	(6.7)	(2.5)	(4.0)
Underlying profit before tax[1]	**85.9**	73.7	45.9	58.3	52.5
Amortisation of intangible assets relating to contract rights	**(11.2)**	(10.8)	(3.4)	(3.4)	(3.4)
Non-underlying finance costs	**(3.6)**	(5.3)	(1.3)	(2.3)	(0.4)
Other non-underlying items	**(31.6)**	(42.2)	(17.0)	(3.6)	7.0
Profit before tax	**39.5**	15.4	24.2	49.0	55.7
Underlying basic earnings per share[1,2]	**96.0p**	87.5p	78.9p	107.4p	91.4p
Dividend per share[2]	**55.2p**	57.6p	54.3p	52.7p	51.1p

At 30 June					
Shareholders' funds (£m)	**585.4**	309.7	158.3	154.2	164.2
Net assets per share[2]	**615.2p**	447.8p	317.5p	317.4p	343.8p

1 Stated before non-underlying items (see note 4 to the consolidated financial statements).
2 Restated to reflect the impact of the bonus element of the rights issue associated with the Mouchel transaction (see note 24 to the consolidated financial statements).
3 Restated to reflect the impact of discontinued operations (see note 19 to the consolidated financial statements).

Corporate information

Board of directors
P M White CBE
H J Mursell
B E J Dew
N P Brook
N A Turner
C Veritiero
R C Bailey
A K Bashforth
A J Mellor
N P Winser CBE

Secretary
H E E Raven

Headquarters and registered office
Kier Group plc
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Sandy
Bedfordshire
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Registered number
England 2708030

Financial calendar
12 November 2015
Annual general meeting

27 November 2015
Payment of final dividend for year ended 30 June 2015

March 2016
Announcement of half-year results and interim dividend for year ending 30 June 2016

May 2016
Payment of interim dividend for year ending 30 June 2016

September 2016
Announcement of preliminary full-year results and final dividend for year ending 30 June 2016

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