ANNUAL REPORT AND ACCOUNTS
2008

INTEGRATED EXCELLENCE INDIVIDUAL FLAIR

KIER GROUP PLC

KIER GROUP

CONTENTS

For the latest information on Kier Group plc, visit our website:

www.kier.co.uk

Homepage
www.kier.co.uk

Investor relations
www.kier.co.uk/ir

Corporate responsibility
www.kier.co.uk/responsibility

Total solutions
www.kier.co.uk/total_solutions

OPERATIONAL HIGHLIGHTS 2008

Integrated excellence: The combined skills of our businesses enable us to deliver a wide range of development schemes through a single source, including property developments, regeneration projects, mixed-use schemes and PFI projects. Kier Strategic Alliances coordinates the Group's delivery of national frameworks for single market sectors and customers. A selection of our framework projects F is highlighted throughout.

STRATEGIC ALLIANCES & FRAMEWORKS

KIER HEALTH

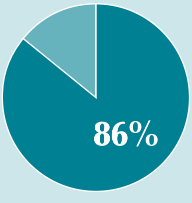
www.kier.co.uk/kierhealth

> NHS ProCure 21

Total value of orders

£112m

% delivered through frameworks



KIER EDUCATION

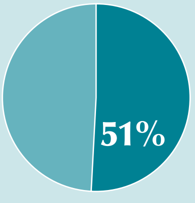
www.kier.co.uk/kiereducation

> Building Schools for the Future (BSF)
> Academies Contractors Framework
> Primary Schools Capital Investment Programme
> Local authorities

Total value of orders

£482m

% delivered through frameworks



KIER CUSTODIAL

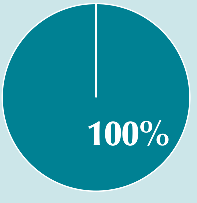
www.kier.co.uk/kiercustodial

> Ministry of Justice Custodial Properties:
– Prison
– Immigration
– Probation
– Youth Justice Board

Total value of orders

£126m

% delivered through frameworks



KIER RETAIL

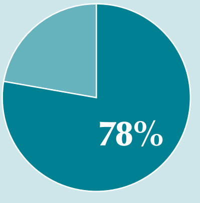
www.kier.co.uk/kierretail

> Waitrose Limited
> Tesco plc
> J Sainsbury plc
> The British Land Company PLC
> Hermes GB Limited
> Wm Morrison Supermarkets PLC

Total value of orders

£184m

% delivered through frameworks

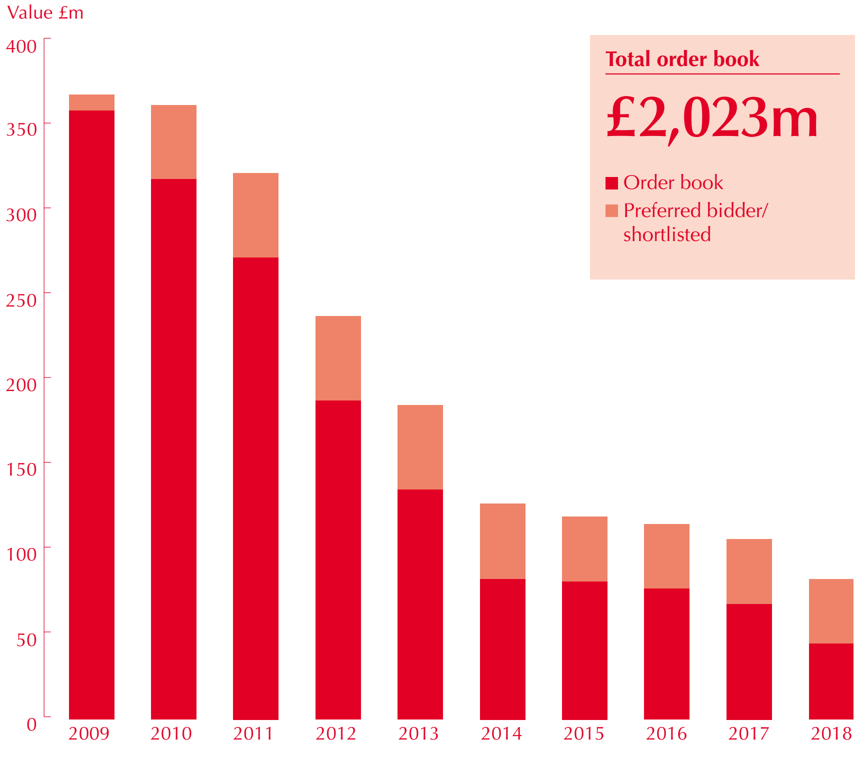


LOCAL & CENTRAL GOVERNMENT FRAMEWORKS

www.kier.co.uk/governmentframeworks

> Bath and North East Somerset Council
> Cambridgeshire County Council
> Cornwall County Council
> East Riding of Yorkshire Council
> Defra North East Procurement
> Gloucestershire County Council
> Hampshire County Council
> Improvement and Efficiency South East (IESE)
> London Borough of Harrow
> Norfolk County Council
> Nottinghamshire County Council
> Plymouth City Council
> South Lanarkshire Council
> Torfaen County Borough Council

KIER SUPPORT SERVICES SECURED ORDER BOOK BY YEAR



Total order book

£2,023m

■ Order book
■ Preferred bidder/ shortlisted

KIER AIRPORTS

www.kier.co.uk/kierairports

> BAA Plc Commodity Build Framework
> One of five contractors for £650m framework over five years at airports in the UK

KIER RAIL

www.kier.co.uk/kierrail

> Network Rail Infrastructure Upgrades East Anglian Region
> Five-year rail infrastructure renewal programme

KIER WATER

www.kier.co.uk/kierwater

> United Utilities - Integrated Alliance North
> KMI Plus joint venture including Kier Construction
> Five-year programme of work

Individual flair: Kier Group comprises five divisions: Construction, Support Services, Homes, Property and Infrastructure Investment.

CONSTRUCTION

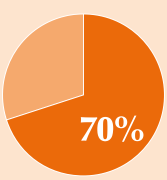
www.kier.co.uk/construction

Kier Regional
Regional contracting, major building projects, affordable housing.

Kier Construction
UK civil engineering, mining and overseas operations.

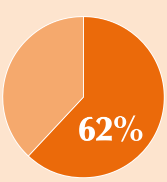
Revenue

£1,653m

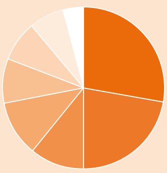


Profit before tax

£59.0m



Kier Regional awards by sector



- Education 28%
- Commercial 22%
- Residential 11%
- Retail 11%
- Hotels & leisure 9%
- Health 8%
- Custodial 7%
- Other 4%

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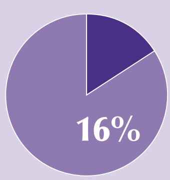
SUPPORT SERVICES

www.kier.co.uk/supportservices

Kier Support Services
Comprehensive facilities management, reactive and planned building maintenance, M&E design and installation, plant hire and other outsourced services for both private and public sectors.

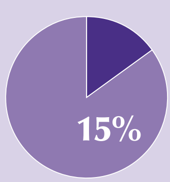
Revenue

£394m

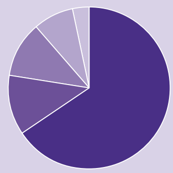


Profit before tax

£14.2m



Business revenue



- Building Maintenance 66%
- Managed Services 12%
- Building Services Engineers 11%
- Plant 8%
- Street Services 3%

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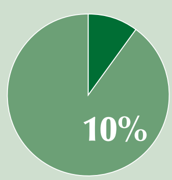
HOMES

www.kier.co.uk/homes

Kier Residential
High-quality private and social housebuilding.

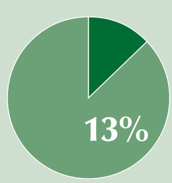
Revenue

£243m

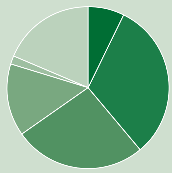


Profit before tax
(before exceptional items)

£12.7m



Unit sales
(by category)



- 1-bed 7%
- 2-bed 32%
- 3-bed 26%
- 4-bed 15%
- 5-bed 2%
- Social 18%

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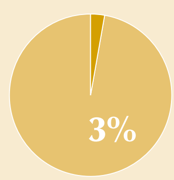
PROPERTY

www.kier.co.uk/property

Kier Property
Commercial property development.

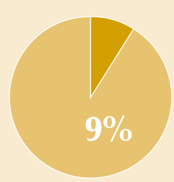
Revenue

£70m

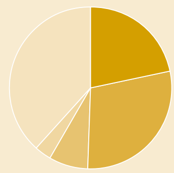


Profit before tax
(before exceptional items)

£7.9m



Property portfolio*



- Office £325m
- Mixed-use £430m
- Industrial £113m
- Retail £51m
- Network Rail JV £569m

*Gross development value £1,488m

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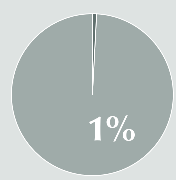
INFRASTRUCTURE INVESTMENT

www.kier.co.uk/projectinvestment

Kier Project Investment
Promotes and manages the Group's interests in PFI bringing together Kier's expertise and resources in construction, property development, housing and facilities management.

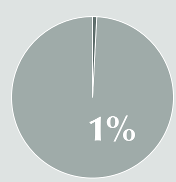
Revenue

£15m

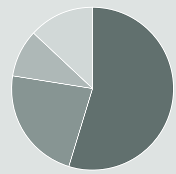


Profit before tax
(before exceptional items)

£0.7m



Committed investment*



- Education £10.1m
- Health £4.2m
- Libraries £1.7m
- Other £2.4m

*Portfolio of 12 PFI projects with a committed equity investment of £18.4m

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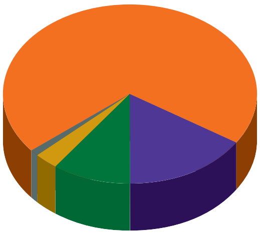
GROUP HIGHLIGHTS

Kier Group plc is a leading construction, development and services group specialising in building and civil engineering, support services, public and private housebuilding, property development and the Private Finance Initiative (PFI). The Group employs 11,000 people worldwide and has annual revenue of £2.4bn.

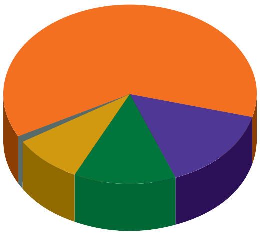
REVENUE BY DIVISION



- Construction 70%
- Support Services 16%
- Homes 10%
- Property 3%
- Infrastructure Investment 1%

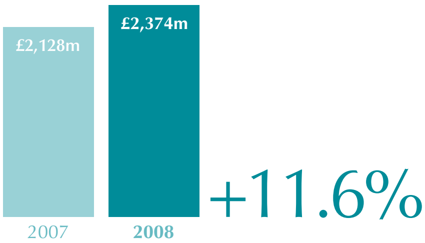
PROFIT BEFORE TAX

(before exceptional items)

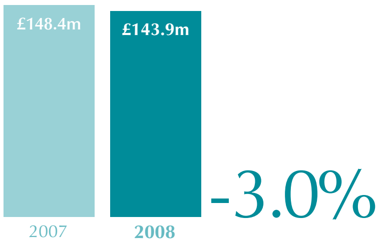


- Construction 62%
- Support Services 15%
- Homes 13%
- Property 9%
- Infrastructure Investment 1%

REVENUE

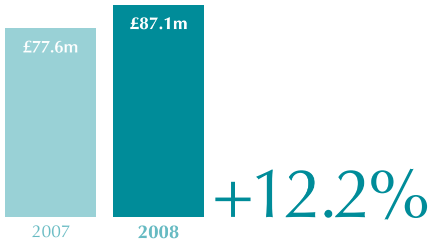


NET CASH BALANCES



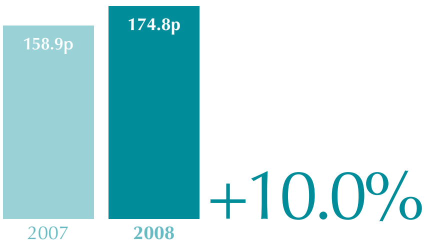
PROFIT BEFORE TAX

(before exceptional items)

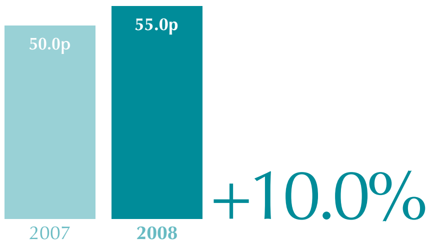


EARNINGS PER SHARE

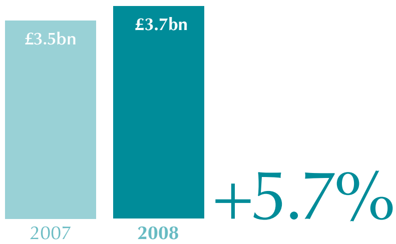
(before the amortisation of intangible assets and exceptional items)



DIVIDEND PER SHARE



CONSTRUCTION & SUPPORT SERVICES ORDER BOOK



INTEGRATED BUSINESS MODEL

CHAIRMAN'S STATEMENT

Phil White | Chairman

I am pleased to report good results for Kier Group plc for the year to 30 June 2008. Revenue was up 11.6% to £2,374.2m (2007: £2,127.9m); underlying profits before tax and exceptional items grew 12.2% to £87.1m (2007: £77.6m) and underlying earnings per share before the amortisation of intangible assets and exceptional items increased by 10.0% to 174.8p (2007: 158.9p).

EARNINGS PER SHARE
(before the amortisation of intangible assets and exceptional items)

174.8p
+10.0%

NET CASH
(at 30 June 2008)

£143.9m

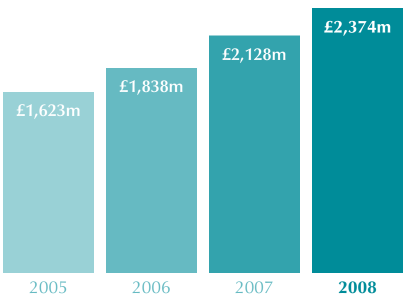
CONSTRUCTION AND SUPPORT SERVICES ORDER BOOK

£3.7bn
+5.7%

HOUSING UNIT SALES

1,438
18%
Social housing

REVENUE



The market for our housing business has been tough with 18.6% fewer sales achieved this year compared with last year and a continuing deterioration in reservation levels. We have responded to reduced demand by restructuring the Homes division from five administrative centres to one with the regrettable but necessary 60% reduction in Homes staff numbers. This has resulted in one-off reorganisation and restructuring costs of £9.5m partially offsetting the profit arising from the sale of the Hairmyres Hospital PFI investment of £16.2m during the year. In addition, we have reviewed the carrying value of residential and commercial land and work in progress at 30 June 2008 in the light of current market conditions and have written those values down by a total of £31.3m; £26.6m in Homes and £4.7m in Property.

Cash, one of our key measures particularly within the Construction division, has been strong. Net cash inflow from Group operating activities was £56.6m (2007: £114.8m) leading to year-end net cash balances of £143.9m (2007: £148.4m).

We have experienced strong order intake leading to record year-end combined order books for Construction and Support Services of £3.7bn (2007: £3.5bn). Our Homes division is experiencing a continued reduction in reservations with order books at 31 August 2008 at about half of last year's levels.

The Board proposes a 10% increase in the total dividend for the year to 55p (2007: 50p). The final dividend of 37p will be paid on 28 November 2008 to shareholders on the register on 26 September 2008 and there will be a scrip dividend alternative.

Board changes

Dick Side, who joined the Board in January 2003 as managing director of Kier Regional, will be retiring from the Board and the Group at the Company's annual general meeting in November 2008. Dick has served Kier with great distinction for over 25 years and his experience and knowledge have contributed greatly to our business. On behalf of the Board I would like to thank Dick for his contribution and wish him well in his retirement; he will be greatly missed by us all.

1

2

1 Moss Construction delivered Plot 5 Arlington Square in Bracknell for Goodman International Ltd as a new headquarters building and data centre. Kier Building Services Engineers was responsible for the design and installation of a full range of mechanical and electrical services.
www.kier.co.uk/mossconstruction/projects

2 Kier Project Investment completed the Oldham Schools PFI project for two 1,500-place secondary schools (the Radclyffe shown here and Failsworth) in February 2008. The schools were constructed by a combination of Kier North West, Kier Northern and Kier Build, with facilities management provided by Kier Managed Services.
www.kier.co.uk/kiereducation/projects

Paul Sheffield, who has been deputy managing director of Kier Regional since October 2005, will assume responsibility for all of our Construction activities following the annual general meeting. Other changes in responsibilities have taken effect from 1 July 2008. Ian Lawson, managing director of Kier Support Services also took responsibility for our Homes business embracing both private housing and our Partnership Homes business. Dick Simkin, managing director of Kier Property has also taken responsibility for our PFI business together with a new business stream, Kier Asset Partnership Services, established to focus on local authority asset management and development.

These changes have been implemented to reflect changes to our business structure designed to bring our operations closer together.

Finally I should like to thank Peter Warry, who retired as chairman of the Board in December 2007, for his contribution during his ten years with the business and particularly the last three years as chairman.

Prospects

The advantages of our spread of operations and product diversification coupled with the quality and commercial capability of our staff will continue to provide stability in the current environment. Clearly 2009 is going to be a challenging year but we have a strong balance sheet, good cash resources and healthy order books and I am confident that Kier will respond positively to our changing markets as we enter 2009.

Phil White
Chairman

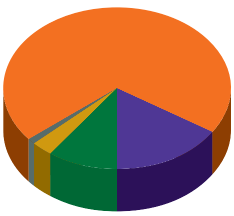
CHIEF EXECUTIVE'S REVIEW

John Dodds | Chief Executive

I am pleased to report another year of increased underlying profits for Kier Group for the year ended 30 June 2008. Despite the very difficult market conditions facing our Homes business the Group has achieved record levels of revenue and underlying pre-tax profit for the year to 30 June 2008. This has been driven by our Construction and Support Services businesses; each of them achieving new records of revenue and profits underpinned by higher quality contracts achieved through an increase in frameworks, negotiated and partnered work.

REVENUE

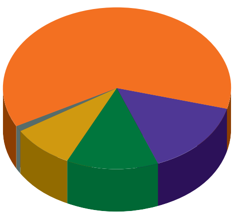
£2,374m
+11.6%



- Construction 70%
- Support Services 16%
- Homes 10%
- Property 3%
- Infrastructure Investment 1%

PROFIT BEFORE TAX
(before exceptional items)

£87.1m
+12.2%



- Construction 62%
- Support Services 15%
- Homes 13%
- Property 9%
- Infrastructure Investment 1%

Overview

Our Homes division sold 1,438 homes in the year; 18.6% fewer than last year's 1,767 homes with the credit crunch having a significant impact on the second half of the financial year resulting in 35% fewer unit sales than in the same period in the previous year.

In Property we secured a number of development sales in the early part of the year which maintained our profits for 2008 at similar levels to the previous year. In our Infrastructure Investment business we sold our 50% PFI investment in the Hairmyres District General Hospital project in Scotland, Kier's first ever PFI contract. The sale completed in February 2008 and contributed a profit of £16.2m in the year. The value attributed to the equity sold implies a net present value calculated using an average discount rate of less than five per cent.

Conditions in the housing market have continued to deteriorate and we have responded to this by reorganising our Homes division; our overhead costs have been reduced and we have aligned it more closely with our Partnership Homes business to focus on regeneration and affordable housing opportunities. We have incurred exceptional restructuring charges of £9.5m against profits for the year largely representing redundancy and severance payments to around 60% of our Homes workforce. We have also examined the carrying values of our Homes and Property land and work in progress, in the light of current market conditions, and have written down certain sites and properties by a total of £31.3m; £26.6m in our Homes business, including £1.0m relating to aborted land purchases; and £4.7m in our Property business. Our priority continues to be to reduce our investment in work in progress and we have reinforced our controls over build expenditure and are limiting our land expenditure to settling land creditors, committed payments and exercising options where appropriate.

Our Construction and Support Services businesses have seen steady demand throughout the year. We have continued to focus on long-term relationships and have successfully extended our range of long-term framework agreements, partnership programmes and negotiated and repeat business both in the public and private sectors. In the UK construction market, education has continued to provide us with plenty of opportunity, much of it

1

2

1 The new Airedale Mental Health Unit was constructed by Kier Northern for Bradford District NHS Trust under the NHS ProCure 21 procurement framework and forms part of the existing Airedale Hospital.
www.kier.co.uk/kiernorthern/projects

2 As part of our five-year infrastructure framework for the renewal of rail structures for Network Rail in East Anglia, Kier Construction successfully, and in record time, completed the Ely rail bridge replacement in December 2007 following a derailment in June. Kier Engineering Services provided design engineering services.
www.kier.co.uk/transport/projects

through the Academies Framework and frameworks with local authorities. Overseas, our markets in the Middle East are buoyant and we have secured £150m of new infrastructure projects in Dubai and continue to explore expansion opportunities in that region. In Support Services our order books have grown significantly reflecting both new contract awards and the expansion of existing contracts. These awards contributed strongly to record combined forward order books for Construction and Support Services providing us with good visibility of revenue for a number of years.

Financial performance

Revenue for the year at £2,374.2m (2007: £2,127.9m) was 11.6% ahead of last year with very strong growth from both the Construction and Support Services divisions. Underlying operating profit was 7.6% ahead of last year at £83.8m (2007: £77.9m) before taking into account the following exceptional items:

	£m
Profit on the sale of our 50% investment in Hairmyres Hospital (PFI)	16.2
Redundancy and reorganisation costs associated with our Homes division	(9.5)
Provisions against land and work in progress:	
Homes	(26.6)
Property	(4.7)
Total exceptional items	(24.6)

Underlying profit before tax increased by 12.2% to £87.1m (2007: £77.6m) before exceptional items. Adjusted earnings per share, before the amortisation of intangible assets and exceptional items, increased by 10.0% to 174.8p (2007: 158.9p).

This strong trading performance was supported by a good cash performance in the year with £56.6m generated from operating activities (2007: £114.8m) resulting in a year-end net cash position of £143.9m (2007: £148.4m). The Construction division generated £52.5m of cash (after tax and intra-Group dividends) reflecting continued strong trading performance and ended the year with another record cash balance of £413.7m (2007: £361.2m). In Homes our investment in land and work in progress continued to climb as the number of unit sales planned for the year reduced, absorbing some of our Group cash.

Group structure and strategic developments

For the year to 30 June 2008 Kier Group comprised five divisions: Construction, Support Services, Homes, Property and Infrastructure Investment. The Group's management structure and segmental analysis for reporting purposes are based on the five divisions.

The benefits of operating a hybrid model have been particularly highlighted this year as the four principal legs of our business experience different market fundamentals. Continued demand in our Construction and Support Services businesses has contrasted with the sudden and dramatic effect of the credit crunch on the demand for private housing and development properties.

In response to the reduction in demand for housing we have consolidated the operations of Allison Homes, Bellwinch Homes, Kier Homes Scotland, Kier Homes Northern and Twigden, into one, Kier Homes, at our head office in Sandy, Bedfordshire. Regrettably this has resulted in around a 60% reduction in our Homes workforce but will provide us with considerable annual overhead savings.

We have also brought Kier Homes and our affordable homes business, Kier Partnership Homes, closer together under one Board director with a remit to further develop the Group's activities in the affordable housing and regeneration arena. The affordable housing sector is one with potential for growth in revenue and profit streams for the Group in the coming years in response to the government's commitment to major public spending on affordable homes and regeneration.

Our Property division and Infrastructure Investment division now operate under one Board director together with a new business stream, Kier Asset Partnership Services, established to focus on local authority asset management and development.

These changes, which are reflected in our new management structure, are designed to bring the Group's operations closer together and provide increased efficiencies.

Construction

KIER SOUTH EAST – Tower 42

A geometrically complex system of suspension wires connected to two tonnes of steelwork has been installed by Wallis, part of Kier South East, at Tower 42, London. The structure forms a roof girder system to support three architectural wings above the building's escalators and is part of the refurbishment of the entrance and reception area.

> Construction order book £1,700m
> Increasing presence in Middle East
> Excellent cash generation
> Unrivalled UK geographical spread
> Numerous framework agreements

KIER REGIONAL

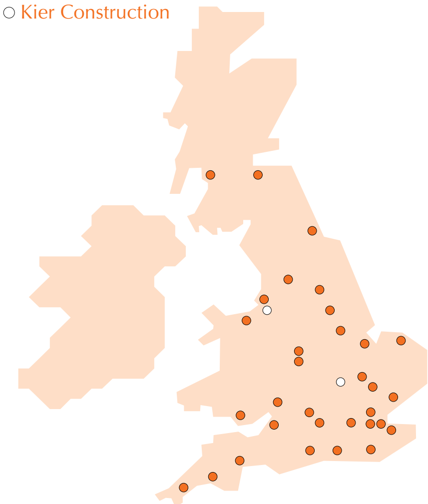
TEN REGIONAL CONTRACTING BUSINESSES
MAJOR BUILDING PROJECTS
AFFORDABLE HOUSING CONTRACTING BUSINESS

KIER CONSTRUCTION

CIVIL ENGINEERING
INFRASTRUCTURE, RAIL AND UTILITIES
MINING
REMEDIATION
OVERSEAS OPERATIONS

CONSTRUCTION OFFICE LOCATIONS

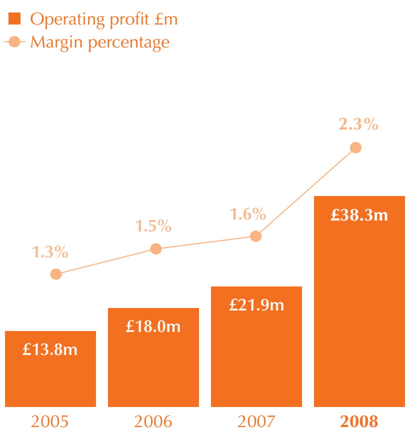
● Kier Regional
○ Kier Construction



During the year Moss Construction delivered several commercial buildings in Slough, including this development at Ajax Avenue where we undertook the design and construction of a single-storey warehouse with a two-storey office provision.
www.kier.co.uk/mossconstruction/projects

KEY PERFORMANCE INDICATORS

OPERATING PROFIT



£38.3m
Operating profit
+74.9%
(2007: £21.9m)

1 Kier North West undertook the construction of the flagship BDP headquarters building at Piccadilly Basin, Manchester. This striking five-storey, 31,450sq ft office building achieved the much coveted BREEAM Excellent rating for environmental sustainability.

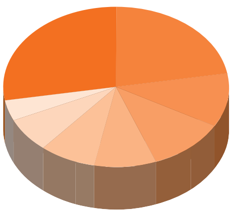
1

NEGOTIATED AWARDS

80.0%

Negotiated, partnered, framework or two-stage tenders represented 80.0% of Kier Regional's contracts awarded (2007: 64.0%)

KIER REGIONAL AWARDS BY SECTOR



- Education 28%
- Commercial 22%
- Residential 11%
- Retail 11%
- Hotels & leisure 9%
- Health 8%
- Custodial 7%
- Other 4%

The Construction division comprises **Kier Regional** and **Kier Construction**. Kier Regional encompasses our ten regional contracting businesses, major building projects and, for the year to 30 June 2008, our affordable housing contracting business. Kier Construction represents the Group's infrastructure and overseas operations which include civil engineering, infrastructure, rail, mining and remediation capabilities.

Overall revenue increased by 17.1% to a record £1,653.2m for the year (2007: £1,411.2m) with good growth in both Kier Regional and Kier Construction. Operating profit increased by 74.9% to £38.3m (2007: £21.9m) and the operating margin increased from 1.6% last year to 2.3%, well ahead of our target for this division in 2008.

Cash generation, one of our key construction performance measures, has been extremely strong again this year, with cash balances at 30 June 2008 £52.5m higher than the previous year-end (after tax and intra-Group dividends) and average balances for the year £59m ahead at £378m. Contract awards were strong giving an order book at 30 June 2008 of £1,700m (2007: £1,710m).

Kier Regional business review

The performance of our Kier Regional businesses was excellent reflecting the high-quality order books carried forward at the beginning of the financial year, and we achieved further advancement in our key performance measures of revenue, profit margins and cash balances. Revenue was 16.8% ahead of 2007 at £1,413.2m; profit margins, supported by an increased proportion of negotiated and partnered work, again increased; and the cash performance has been strong with average cash balances around £54m higher than last year, ending the year at another record of £377m (2007: £336m).

The level of awards achieved through framework and partnership agreements together with negotiated and two-stage tenders, grew to around 80% of the total work secured in the year (2007: 64%) and, together with the low average value of our contracts at £4.7m (2007: £4.7m), they continue to provide us with a high-quality, sustainable order book with an attractive risk profile.

2

3

2 Completed by Kier Partnership Homes in August 2007, the Mill Brook Road affordable homes scheme in Orpington, Kent, won the prestigious Housing Project of the Year 2007 award from Builder and Engineer Magazine. Comprising the design and construction of 40 flats, 28 for shared ownership and 12 for rent, the scheme achieved the EcoHomes Very Good accreditation.
www.kier.co.uk/kierpartnershiphomes/projects

3 The Pinewood Infants School project for Hampshire County Council involved forming a new infants' school for 120 pupils. Built by Kier Southern, the project was completed under the IESE framework in which Kier is a partner. Kier Managed Services provides maintenance at this and other schools in Hampshire.
www.kier.co.uk/brazierconstruction/projects

Forty-nine per cent of our total awards arose from private sector clients (2007: 55%) and 51% from the public sector (2007: 45%). In the private sector commercial property, retail and hotel & leisure projects provided a good spread of work and in the public sector 64% of our awards were through framework agreements largely for education, prison and healthcare projects.

Demand for commercial property continued to be strong again this year representing 22% of our awards, partly through Kier Property projects as well as awards through our long-term relationships with Land Securities Trillium, British Land, Goodman and SEGRO. The retail market continued to be buoyant, particularly for food retailers, representing around 11% of our awards largely through our framework agreements and partnerships with Tesco, Sainsbury's and Morrisons. During the year we were also appointed by BAA plc as one of its commodity build framework contractors aimed at delivering a total of £650m of projects over five years, including car parks, refurbishment works and asset renewals at Heathrow, Gatwick and a number of other UK airports.

In the public sector education continues to be buoyant with orders this year representing 28% of total awards, largely through framework agreements and partnerships with government, local authorities and individual universities. Our involvement in the Contractors' Framework for Academies and Other Educational Facilities is beginning to deliver work, with the award of the £27m Milton Keynes Academy during the year and several further awards imminent. We have also secured the first contract through the Primary Capital Investment Programme for the London Borough of Barnet.

Local authority frameworks continue to provide us with a significant volume of work in the education sector including the Improvement and Efficiency South East (IESE) partnership of councils in the south and south-east of England, our partnership agreement with South Lanarkshire Council and multiple local authority frameworks with various councils across the country. A great success in the year was being appointed preferred bidder by Kent County Council, as part of the Land Securities Trillium consortium, to deliver £100m worth of schools in the first wave of Kent's Building Schools for the Future (BSF) programme with the opportunity for a further £150m of work in future waves.

Health projects represented 8% of our awards in the year. The seven-year NHS ProCure 21 procurement framework, of which we are a part, entered its fifth year and has provided us with £326m worth of healthcare work to date including 21 projects awarded this year with a combined value of £96m. New construction, extensions and refurbishment work at prisons for the Ministry of Justice Custodial Properties' Framework has continued to provide a good level of activity representing around 7% of total awards in the year. We delivered over 850 prison spaces during the year and are progressing with a further 486 places.

In the affordable housing sector we completed 723 affordable housing units (2007: 850 units) and were awarded approximately £125m of new contracts (2007: £98m) including a £20m scheme in Birmingham. This sector has the potential to increase markedly on the back of the government's committed investment of £8bn to provide 70,000 affordable homes per annum by 2010.

see more online:
www.kier.co.uk/kierregional

1


2

CONSTRUCTION REVENUE

£1,653m
+17.1%
(2007: £1,411m)

Kier Construction business review

Kier Construction saw a 19.0% increase in its revenue in the year to £240.0m (2007: £201.3m) through a combination of projects in the rail, energy and water sectors, our opencast coal mining business in Scotland and overseas projects, particularly in Dubai and Romania.

The energy sector continues to provide us with good opportunities. During the year we successfully completed our work to a major Liquefied Natural Gas (LNG) receiving terminal at South Hook in Milford Haven. Good progress was made on two new Combined Cycle Gas Turbine (CCGT) power stations at the Langage Energy Centre, Plymouth for Alstom Power and at Immingham CCGT power station on the Humber. These projects add to our considerable experience gained in successfully completing similar works on 12 other CCGT power stations over the past ten years.

At our privately owned opencast coal mine, Greenburn in East Ayrshire, we have now extracted 2.6m tonnes of coal since production began in 2004. We expect to continue mining here until 2013 and have forward sold 70% of the remaining 2.0m tonnes of anticipated coal at favourable prices.

As part of our five-year infrastructure framework for the renewal of rail structures for Network Rail in East Anglia, we successfully, and in record time, completed a rail bridge replacement project at Ely in December 2007 following a freight train derailment in June 2007 which caused extensive damage to the existing 140-year-old structure.

Overseas, our markets in the Middle East are buoyant. We have secured £150m of new infrastructure projects in Dubai and continue to explore expansion opportunities in that region. In Saudi Arabia we are establishing a new phosphate mine development in joint venture with our local partners and we start mining in 2009 for a period of eight years. In Romania we have had a busy year on water infrastructure projects as well as major retail and residential schemes. In the Caribbean we have completed our successful work on the transport interchange in Kingston, Jamaica and the Norman Manley airport extension is nearing completion.

Construction markets and outlook

Our framework agreements in both the public and private sectors continue to provide us with a steady stream of work which will help to safeguard us from uncertainties in the commercial property and private residential construction markets. We were

3

1 The Ridgaling Water Treatment Works, designed and delivered between 2004 and 2007, was the first major new works to be achieved in the current five-year programme of works by the North West Integrated Alliance North (IAN), a partnership formed to work alongside United Utilities and which includes KMI Plus.

2 The South Hook LNG terminal at Milford Haven was completed in the year, with Kier Construction in joint venture with Besix to rejuvenate a former oil jetty into a major LNG receiving terminal.

3 Good progress has been made on the new 885MW CCGT power station being built by Alstom Power at Langage, Plymouth, with Kier Construction undertaking the civil engineering works.
www.kier.co.uk/power/projects

delighted to have been awarded further projects under the Academies framework during the summer of 2008 including the £20m Norwich Academy with a potential to negotiate a further similar size academy at Kings Lynn, and we are preferred bidder on the £18m Samworth Academy in Mansfield and One School Pathfinder Projects in Shropshire (£25m), the Wirral (£23m) and Sefton (£42m). We are also bidding for a further £200m of similar education opportunities.

We are one of three contractors chosen by Argent for their £2bn central framework contract at King's Cross, which includes around 8.0m sq ft of mixed-use development over a 10 to 15-year period.

In the energy sector our track record continues to provide us with more work and we were delighted to be awarded a £95m contract to provide civil engineering works for a 1,200MW CCGT power station at West Burton, Nottingham for EDF Energy. Opportunities also exist in the waste sector and we are preferred bidder on a waste treatment plant in Wakefield for VT. In the nuclear sector we have been selected by AWE as one of two contractors to develop a portfolio of work valued at £200m at Aldermaston. We are expanding our presence in Dubai as significant opportunities come forward in the infrastructure and drainage sector where we have a long track record.

We enter the new financial year with strong construction order books of £1,700m (2007: £1,710m) and a healthy pipeline of 'probable' awards. Frameworks and long-term partnerships will help to insulate us from longer-term uncertainty in the construction market and together with our wide geographic coverage and low average contract size we can view our construction marketplace with confidence.

see more online:
www.kier.co.uk/kierconstruction

KIER STREET SERVICES

Kier Street Services is carrying out a seven-year contract for the London Borough of Bexley for refuse, recycling and trade collections as well as street cleansing operations.

Support Services

> Long-term contracts with good visibility of revenue
> Good cash generation from contracts
> Creates good opportunities for other Group companies

SUPPORT SERVICES BUSINESSES

KIER BUILDING MAINTENANCE

KIER BUILDING SERVICES ENGINEERS

KIER MANAGED SERVICES

KIER PLANT

KIER STREET SERVICES

SUPPORT SERVICES OPERATIONS

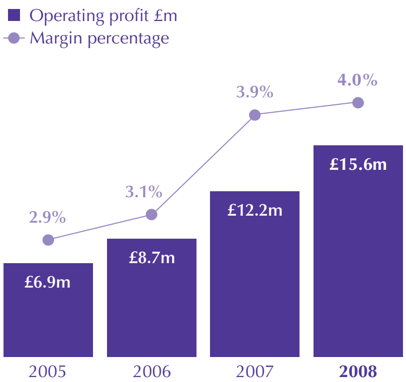
- Kier Building Maintenance
- Kier Building Services Engineers/Kier Managed Services
- Kier Plant
- Kier Street Services

Kier Plant has again invested heavily in new and upgraded plant, including the purchase of eight new tower cranes, increasing the fleet to 102.
www.kier.co.uk/plant/projects

KEY PERFORMANCE INDICATORS

OPERATING PROFIT

(before amortisation of intangible assets)



£15.6m
Operating profit
+27.9%
(2007: £12.2m)

1

Support Services comprises five main business streams: Kier Building Maintenance, which provides both reactive and planned maintenance largely to local authorities; Kier Managed Services, providing facilities management services to public and private sector clients; Kier Building Services Engineers, our specialist mechanical and electrical (M&E) design, installation and maintenance business; Kier Street Services, providing services within the waste and recycling, street scene and grounds maintenance sectors; and Kier Plant which hires construction plant to Kier Group companies and external clients.

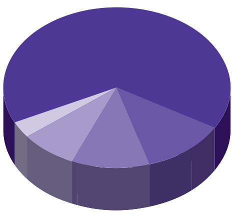
SUPPORT SERVICES REVENUE

£393.7m

+24.8%

(2007: £315.5m)

SUPPORT SERVICES REVENUE BY BUSINESS



Support Services business review

Revenue in Support Services rose 24.8% to £393.7m (2007: £315.5m). Operating profit, before deducting the amortisation of intangibles of £2.1m, increased by 27.9% to £15.6m (2007: £12.2m) at an improved margin of 4.0% (2007: 3.9%) in line with our target for the year.

Once again, the cash position within the division was strong with £1.6m generated to give year-end cash balances of £17.4m (2007: £15.8m) which includes our investment in plant of £21.1m. The order books have grown significantly standing at £2,023m at 30 June 2008 (2007: £1,788m), reflecting both new contract awards and the expansion of existing contracts.

The largest and fastest growing business is Kier Building Maintenance, with revenue in the year up 33.4% to £288.7m (2007: £216.4m). New contracts worth £460m were secured during the year including Newham, Hammersmith & Fulham and Stoke-on-Trent. The Stoke contract was awarded in February 2008, in partnership with Stoke-on-Trent City Council, to maintain its 20,000 housing stock and carry out works through the Decent Homes programme. This contract provides us with annual revenue of £40m for ten years, extendable for a further five years. It also provides a great opportunity to attract additional work both through the contract and through third-party projects using the resources available in the partnership. In June we were awarded a contract with East Durham Homes to carry out planned maintenance and adaptation work on their 8,800 homes in Peterlee, County Durham. This contract will provide revenues of £5.5m per annum over four years and brings the total number of public sector homes we look after in England to 220,000.

A major challenge in the north during the first part of the year was our response to the devastating flooding that struck Yorkshire and Humberside in June 2007 which saw our Hull, Sheffield and Leeds Building Maintenance teams providing emergency repairs and maintenance and the subsequent clearing-up operations. Kier Sheffield LLP, our partnership with Sheffield City Council

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1 Grounds maintenance is one of many Kier Street Services activities, illustrated here by the present contract for maintaining the grounds around the Thames Barrier.
www.kier.co.uk/streetservices/projects

2 Kier Building Maintenance now looks after a total of 220,000 public sector homes in England, many of which are being upgraded through the Decent Homes programme.
www.kier.co.uk/kiersheffield/projects

3 Kier Building Maintenance ordered 22 new low-pollution Transit vans running on Liquefied Petroleum Gas (LPG) under a new contract to provide improvements, repairs and maintenance for more than 9,000 homes for Hammersmith & Fulham Homes in the northern part of the borough.
www.kier.co.uk/KBM

now in its fifth year, still represents the largest revenue generator at £111.5m (2007: £107.1m) and continues to expand with regional housing association work and capital works for Sheffield education department, including completing the build of the new Sharrow School in September 2007.

In the south, Kier Islington continues its efficiency improvements including co-locating its client services with the council's as well as setting up a single resolution team with the council to deal with any customer complaints. Work commenced with Harrow Council on 1 July 2007 to undertake a full range of responsive maintenance and Decent Homes upgrades. Worth £125m over five years, this gives us the opportunity to provide additional capital projects, such as building schools and a leisure centre, with £60m of such work already secured and being carried out by Kier Regional. In Harlow, an award in February 2007 and one which includes Kier Street Services, improvements have been made to the service which is now rated 'good' compared with the 'poor' rating in 2004.

After a period of consolidation, Kier Managed Services has won three significant new contracts this year. In Northampton we are to provide facilities management services and lifecycle replacement for a PFI scheme for the provision of mental health services to Northamptonshire Healthcare NHS Trust. At the University of Glamorgan, where we have provided facilities management services for over ten years, we won the contract to provide full facilities management services for the newly built campus for the Cardiff School of Creative & Cultural Industries. We also secured a £7.0m per annum facilities contract for Legal & General during the year.

We have had a strong year in Kier Plant and have continued our investment in upgrading our fleet. This has included the purchase of eight new tower cranes, bringing the inventory to 102 such cranes, a 70-tonne crawler crane, 26 new telehandlers and 710 new site accommodation units, including our own trademarked Green Space and Green Step eco-cabins, bringing our holding to 3,600 units.

Support Services markets and outlook

There are continuing opportunities both with local authorities and the private sector for our Managed Services business.

In Building Maintenance our order book gives us long-term visible earnings at consistent margins extending beyond 2017. The long-term contracts and relationships allow us to expand our activities through organic growth and provide opportunity for other Kier businesses to participate. There is a strong pipeline of new contracts to bid including a £40m per annum ten-year contract for North Tyneside on which we are shortlisted as one of two bidders.

We have a strong track record of delivery on high-value building maintenance contracts which places us in an excellent position when tendering for large contracts.

KIER SUPPORT SERVICES SECURED ORDER BOOK BY YEAR

TWIGDEN HOMES

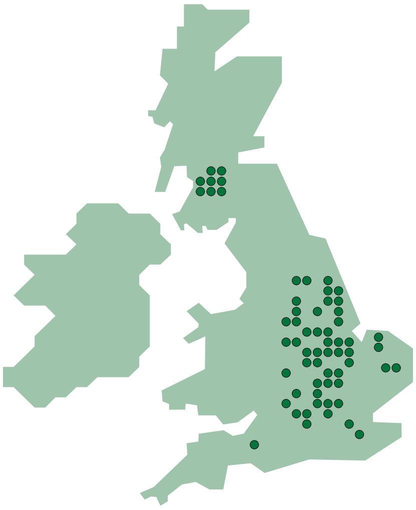
In this year's prestigious What House? Awards, Twigden Homes' Fairfield Park development in Stotfold, Bedfordshire, gained two Bronze Awards, for Best Development and also Best House, taking its award tally to 11.

Homes

> Restructured from five operations to one
> Opportunities to convert land to affordable housing or other usage
> Aligned more closely with affordable housing business for the future

SALES SITES

● Current sales sites



Meadowfield Park in Bathgate, West Lothian, is a development by Kier Homes for three and four-bedroom detached units.

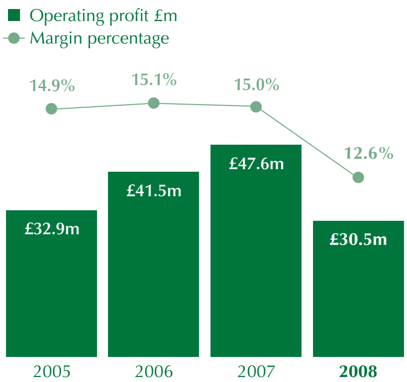
KEY PERFORMANCE INDICATORS

OPERATING PROFIT

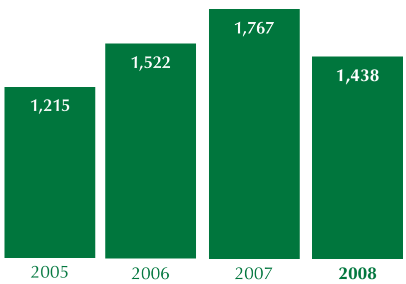
(before exceptional items)

£30.5m
Operating profit

12.6%
Operating margin



UNIT COMPLETIONS



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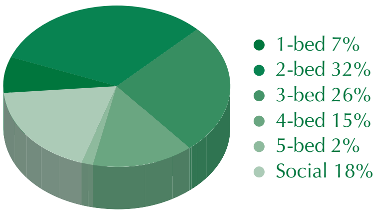
AVERAGE SELLING PRICE

£168,800

(2007: £179,300)

UNIT SALES

(by category)



Conditions in the housing market started reasonably well for the first half of the year but we experienced a significant downturn in demand for houses as we entered the second half of the year initially caused by a reduction in mortgage availability and the tightening up of mortgage terms. The market continued to deteriorate during the last quarter of the year with reservations rates falling significantly year-on-year. Despite this, Kier Residential sold 1,438 homes in the year (2007: 1,767 homes) representing a fall of 18.6% over the entire year compared with last year. We sold 827 units in the first half of the financial year (2007: 819 units) and 611 units in the second half, 35% fewer than the second half of the previous financial year.

2

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4

1 Once completed there will be a total of 300 homes at the Redding Bank development which Kier Homes is delivering in Falkirk.

2 Sea Spray is a selection of family homes in a seaside location on the outskirts of Chapel St Leonards in Lincolnshire being developed by Kier Homes Northern.

3 The Courtyard is a development in the market town of Spilsby, Lincolnshire. It features two-bedroom homes and three-bedroom semi-detached homes.

4 A computer-generated image of Blue Quarter, Bellwinch's riverside development in Maidstone, Kent.

Average selling prices were lower for the year at £168,800 (2007: £179,300) reflecting a higher proportion of the lower value Kier Homes Northern properties, an increased proportion of social housing units than the previous year (18% compared with 16% in 2007) as well as some price discounting. Revenue of £242.8m was generated from housing sales (2007: £316.8m) and there were no land disposals (2007: revenue of £8.3m from land sales). Operating profit from housing sales declined by 36.0% to £30.5m (2007: £47.6m) at a reduced margin of 12.6% (2007: 15.0%).

We incurred exceptional costs of £9.5m relating to redundancy and reorganisation which will reduce our costs by £17m on an annual basis. We have also examined the carrying values of our land and work in progress and have written down land values by £25.6m together with a further £1.0m relating to aborted land purchases, representing 5.7% of our residential land and work in progress.

During the year £88.2m was spent on selective land purchases (2007: £87.5m) and at 30 June 2008 the land bank contained 6,233 units (2007: 6,465 units). In addition to land with planning consent, we hold approximately 12,000 plots of strategic land (2007: 11,500 plots) mostly under option.

Our sites are principally located outside major cities and exclude high-rise flats. In Lincolnshire, Cambridgeshire and Bedfordshire our sites are principally greenfield housing developments. In the south-east and Scotland, whilst we have a number of developments with apartments, they are typically low-rise. Nevertheless our work in progress has increased and we are focused on reducing our stock swiftly given the current market conditions.

Homes markets and outlook

We are very cautious on the outlook for 2009 hence our actions to reduce our cost base. Gross reservations for the first two months of the new financial year are around 76% below the same period last year reflecting continued tightening of mortgage availability and a general slow down in demand hence our order books at 31 August contain 49% fewer units than at the same time last year.

We have reinforced our controls over build expenditure and work in progress and have limited land expenditure to settling land creditors, committed payments and exercising options until the outlook for the housing market becomes clearer.

see more online:
www.kier.co.uk/homes

KIER PROPERTY – Electronic Data Systems

A notable completion during the year for Kier Property was the 150,000sq ft business park headquarters for Electronic Data Systems in Milton Keynes constructed by Marriott Construction and sold to Prudential.

Property

> Joint venture formed with Network Rail for seven station-related sites

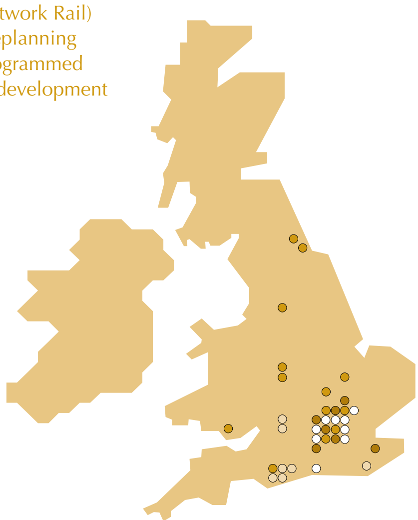
> Good progress on UK Supreme Court

> Very little speculative development

> Proven track record for creating opportunities and enhancing value

CURRENT DEVELOPMENT SITES

- Solum (joint venture with Network Rail)
- Preplanning
- Programmed
- In development



One of a number of brownfield developments being undertaken by Kier Property, this Sunbury-on-Thames development comprised a Travelodge hotel and some mixed-tenure apartments built in three blocks by Bellwinch Homes.

KEY PERFORMANCE INDICATORS

OPERATING PROFIT

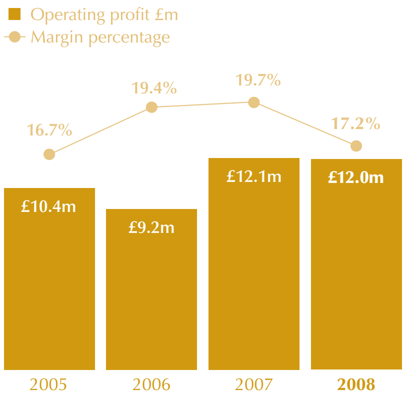
(before exceptional items)

£12.0m

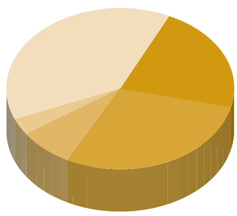
Operating profit

17.2%

Operating margin



PROPERTY PORTFOLIO BY GROSS DEVELOPMENT VALUE



- Office £325m
- Mixed-use £430m
- Industrial £113m
- Retail £51m
- Network Rail JV £569m

£1,488m

Gross development value

Kier Property's strategic partnership with Invista Real Estate Management continues to strengthen, illustrated by One Reading Central, near the town's main railway station. Terms were agreed for Yell, the international directories business, to occupy seven of the ten floors of the 219,000sq ft headquarters building. Kier Build and Moss Construction are constructing the building.

Our property development activities cover commercial offices, industrial, retail and mixed-use sectors. This division operates through Kier Ventures, our wholly owned subsidiary, and Kier Developments, a 50% joint venture with Bank of Scotland.

Property business review

Despite tough market conditions the Property division recorded another successful and profitable year. Revenue increased from £61.3m last year to £69.6m with operating profit, before property write-downs, at similar levels to last year of £12.0m (2007: £12.1m) representing a margin of 17.2% (2007: 19.7%). The commercial property market is more difficult than we have seen for some time with exit yields shifting upwards and occupiers taking time to make decisions. Consequently we have examined the carrying values of our developments and work in progress and have made exceptional provisions against the values amounting to £4.7m, representing 4.8% of the book value of our developments, predominantly against properties acquired in the last two years.

Notable sales during the year included the 150,000sq ft business park headquarters for Electronic Data Systems in Milton Keynes, constructed by Kier Regional and sold to Prudential during the year. Within the Bank of Scotland joint venture a successful 22-unit Trade City industrial park was sold to CBRE Investors and a number of smaller unit sales were also completed from our sites in Weybridge, Enfield and Chelmsford.

Excellent progress is being made at the new 70,000sq ft UK Supreme Court for the Ministry of Justice where Wallis, the Group's specialist refurbishment business, is on target to complete the work in the spring of 2009. This will create a highly marketable 30-year income stream with a government-backed covenant.

Our strategic partnership with Invista continues to strengthen. At Reading terms have been agreed for Yell to occupy seven of the ten floors of the 219,000sq ft building which is now under construction by Kier Regional. On the remaining two sites tenant interest is being pursued to complete the development of this gateway project.

In July 2008 we formed a new joint venture with Network Rail. This ground-breaking partnership initially gives us the opportunity to develop seven station-related sites in London and the south-east identified for regeneration. These sites include east Maidstone, Guildford, Epsom, Twickenham, Walthamstow, Enfield and Wembley. Over a period of ten years the sites will generate a gross development value of £500m and be supplemented at a later stage by further opportunities from the Network Rail property portfolio.

At Western International Market, near Heathrow, construction of a new market for the fruit and vegetable traders has now been completed and the site previously occupied by the traders has been released for redevelopment and a pre-sale or pre-let is currently being sought.

Following on from our successful headquarters scheme for National Trust, the Ordnance Survey headquarters development in Southampton recently received planning permission and a start on site is anticipated by late 2008. On completion the development will release 25 acres of land available for a major mixed-use scheme.

Property markets and outlook

The forthcoming year will provide the business with new challenges not seen for some years; however Kier Property's low-risk strategy of largely non-speculative development will ensure that we are not exposed to large holdings of unoccupied buildings and that the portfolio is sufficiently robust to counter any cyclical movements. Within our current development portfolio we have the ability to enhance value through the planning process and, whilst this may not crystallise short-term profit, it will provide a strong foundation to both protect and enhance the asset base of the business.

By forming long-term partnerships in the development sector, such as the recent Network Rail joint venture scheme, we can look forward to a secure business stream spread over many years into the future. We are also examining the Group's current residential land holdings with the aim of identifying potential opportunities for changes in planning to create value through alternative development including commercial use.

Infrastructure Investment

RADCLYFFE SCHOOL, OLDHAM

The Radclyffe and Failsworth secondary schools in Oldham were funded by a PFI scheme including Kier Project Investment. The 25-year contract will also see the completed facilities maintained by Kier Managed Services. The Radclyffe design (shown here) is inspired by the Trafford Centre and has a centre-piece featuring a stunning clear-topped atrium creating a covered outdoor space. Kier North West and Kier Northern built the school.

KIER PROJECT INVESTMENT

SCHOOLS
HOSPITALS
CARE HOMES
POLICE ESTABLISHMENTS
LIBRARIES

● Current projects

1

KEY PERFORMANCE INDICATORS

REVENUE

£14.9m
(2007: £14.8m)

COMMITTED INVESTMENT

£18.4m
In the PFI portfolio

PROFIT FROM SALE OF PFI INVESTMENT

£16.2m

> Directors' valuation of committed investment £40m based on discount rate of 7%

> Continued opportunities for further investment

2

Kier Project Investment (KPI) manages the Group's PFI interests. The core strength of KPI is its ability to bring together the diverse range of skills and resources within the Group and combine these with a financial package to deliver high-quality buildings and services to meet the needs of the public sector.

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Infrastructure Investment business review

The year to 30 June 2008 has been a productive time for KPI with the successful disposal of an investment and the completion of construction on several projects. At the year-end following the sale of an investment during the year, our portfolio of PFI projects totalled 12, with all but one completed and operational. Our committed equity investment in PFI schemes stands at £18.4m (2007: £22.8m) of which £14.1m has been invested to date. The most significant milestone for the division was the sale of our 50% share in our first PFI project undertaken, Hairmyres Hospital in Scotland. The sale gave us proceeds of £13.8m which, when combined with a refinancing gain deferred from August 2004, generated a profit of £16.2m. The value attributed to the equity sold implies a net present value calculated using an average discount of less than 5%.

Three projects reached construction completion during the year, with a fourth due for completion in the autumn of 2008. Significantly, the delivery of all of these schemes has involved our Regional construction companies and three of them involve Kier Managed Services as facilities management providers. Completed projects include the Oldham Schools PFI project involving two 1,500-place secondary schools; the Garrett Anderson Centre at Ipswich Hospital and the highly successful North Kent Police Station. Good progress has been made on the six new schools under the Norfolk County Council PFI Schools Scheme with three completed in 2006 and 2007 and the final phase due for completion in the autumn of 2008.

Infrastructure Investment markets and outlook

The PFI procurement route continues to provide us with opportunities for further investment. Whilst we have a firm anchor in the education, healthcare and local authority sectors of the PFI market, we are exploring other opportunities including fire stations, waste handling centres and student accommodation.

The remaining committed investment of £18.4m has a directors' valuation of approximately £40m at 30 June 2008 based on discounting the cash flows from investments in financially closed projects at a rate of 7%. The secondary market for investments remains good and we are exploring other potential disposals.

1 Completed in 2008, North Kent Police Station, on the outskirts of Gravesend, is a three-storey building that provides accommodation for up to 472 officers and staff, and a custody suite of 40 cells. It is part of a 30-year PFI scheme and was constructed by Kier South East.
www.kier.co.uk/projectinvestment/projects

2 The Garrett Anderson Centre was completed in 2008 and provides a 9,000sq m extension to the existing acute hospital at Ipswich, delivered as a 30-year PFI concession. It was constructed by Kier Eastern, with the facilities management services at the centre being delivered by Kier Managed Services.

3 Taverham School is one of six schools being built under the Norwich Schools PFI scheme. Constructed by Kier Eastern and with facilities management being undertaken by Kier Managed Services, the Taverham School project involved the complete re-modelling of the entire school which remained live and operational throughout the construction period.

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1 Kier Group has developed a range of leadership and teamwork programmes, delivered by IDG at the Royal Military Academy Sandhurst, for developing the Group's management staff at both the start of their management career (the first line managers' development programme) and at a more senior level (the operational managers' development programme).

2 Kier Western hosted A Design For Life challenge at its site in Rhydycar, Merthyr Tydfil, in association with the Welsh Assembly Government and the Construction Skills and the Sector Skills Council for Construction during National Construction Week. Over four days 172 children took part in the challenge, representing several local schools in South Wales.

3 Twenty new trainee council house maintenance apprentices, all 16-to-18-year olds, joined Kier Sheffield LLP after being involved in the Sheffield City Stewardship Programme. Kier Sheffield LLP has been recognised as Outstanding Employer of the Year at the Celebration of Learning and Skills (CoLaS) Awards.

Health & Safety

In 2008 Kier Group businesses have diligently focused on getting back to basics to ensure we create and maintain safe sites. This simple approach is having a significant effect on our safety performance with some spectacular results across our sites including seven million accident-free man-hours in Dubai. The progress made last year on people issues has helped shape our current strategy which aims to ensure a practical safety approach that facilitates safe working processes on site. Our Accident Incidence Rate (AIR) of 588 per 100,000 staff and subcontractors (2007: 640) compares favourably with a Health & Safety Executive (HSE) target rate of 865 per 100,000.

People

On behalf of the Board I would like to thank all of our people for their hard work over the last 12 months and for their continuing commitment and support in making Kier the successful business it has become. 2008 has been a difficult year for some parts of the business and I suspect 2009 will be no easier. It is at times such as these that the businesses and teams need to pull together even more strongly to deliver the Group's goals and objectives. We have many skilled, talented and committed people in this Group and I am confident that, together, we will successfully steer our way through these uncertain times.

Objectives and prospects

We are reporting at a time of increasing uncertainty in the UK economy with the credit crunch having a major effect on our Homes and Property businesses and the recent banking crisis sending shockwaves throughout the global economy. However our Construction and Support Services businesses are busy, our order books are strong and, importantly, our enquiry levels remain high, underpinned by our many framework agreements.

2009 is going to be a difficult year but we have skilled management teams in place in all of our businesses, many of whom have seen economic downturn in the past and have the experience to respond promptly to change as it arises. We have a strong balance sheet, good cash resources and a commitment to succeed. All of which will stand us in good stead over the next few years.

John Dodds
Chief Executive

CORPORATE RESPONSIBILITY

By maintaining our core values and remaining focused on improvement and delivery, our vision is to be the most highly respected Group in the industry. Our positive approach to corporate responsibility (CR) and our commitment to address sustainability through a responsible approach to economic, environmental and social issues will ensure that our vision becomes reality.

Most of our school-building activities around the country feature Kier staff engaging with the teachers and pupils to contribute to the educational process. Here Moss Construction sponsored art students at Chosen Hill School, Gloucester, to paint the hoardings around the site.

Our vision is to be the most highly respected Group in the industry. This means we aspire to gain the highest respect of all our investors, clients, employees, supply chain partners and peers as well as the public at large for the quality of our service, the integrity of our business practices and our ethical and sustainable approach to economic, environmental and social issues. We are committed to delivering that vision.

To do so, we concentrate on our people: their health, welfare, safety, training and development. We also take seriously our approach to business ethics, including corporate governance, compliance with competition legislation, fraud awareness and other policies reinforced by a robust whistleblowing process. Accredited environmental management systems and processes remain a core part of our approach to sustainability including recycling, waste and energy-saving initiatives and biodiversity. Ensuring good, positive community relations is a fundamental part of how we deliver our business. To this end, our central disciplines have increasingly worked together and with our businesses to help deliver our vision.

This financial year has been characterised by considerable efforts by all businesses in the Group to put into practice the objectives of the Group Strategy for Sustainability policy that was launched in the summer of 2007. At the same time, we have made considerable inroads into coordinating our processes and measurement criteria to enable the Group to report consistently on CR issues.

Third-party organisations and benchmarks

In the context of reporting, the Group has worked closely with several highly respected organisations that will help us to measure, benchmark, monitor and establish targets for improvement in all aspects of CR. From 1 July 2007 the Group became a corporate member of Business in the Community (BITC), having piloted the scheme for nearly a year through Moss Construction, and we began work on benchmarking responsible business practice through the BITC Corporate Responsibility Index. From 1 January 2008 the Group became an Associate Member of the Considerate Constructors Scheme (CCS), whose third-party auditing and reporting we now use as benchmarks throughout the Group.

We have also engaged in dialogue with Ethical Investment Research Services (EIRIS) Limited to seek advice and guidance on meeting the criteria for potential listing in the FTSE4Good Index, possibly in 2009.

Similarly, we are preparing for the Carbon Reduction Commitment (CRC), the new legally binding climate change and energy-saving scheme that is a central part of the UK's strategy for acting to reduce our carbon footprint and deliver ambitious emission reduction targets set out in the Climate Change Bill. The CRC scheme begins to operate in April 2010 but requires action in 2009.

Considerate Constructors Associate

Business in the Community

Kier Group became a corporate member of Business in the Community on 1 July 2007 and an Associate Member of the Considerate Constructors Scheme on 1 January 2008.

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see more online:
www.kier.co.uk/responsibility

Business in the Community and Corporate Responsibility

Having become a corporate member of BITC in July 2007, the Group has worked closely with the organisation to participate in the BITC Corporate Responsibility (CR) Index. We have been working with the BITC secretariat on completing a trial index assessment to identify the Group's current reporting capabilities and to address strengths and weaknesses in our processes. Once this exercise is completed, we intend to submit a full survey for the public BITC CR Index 2008 this autumn.

The BITC CR Index assesses corporate strategy, including corporate values, advocacy, risk management and business conduct, and management systems for community, environment, marketplace and workplace. It assesses our approach to climate change, waste and resource management and biodiversity. It also reviews health, safety and wellbeing, employee development, employing migrant workers, and community investment. The completion of this comprehensive survey will become the basis for our future CR reporting criteria.

In the meantime, BITC has continued to work closely with several of our businesses. Moss Construction, which piloted membership of the scheme in 2007, continued to work with BITC locally to further develop its own corporate responsibility policy and this year evolved a formal policy under the banner of 'Connecting – people, environment, communities'. This has now become a model framework which is intended to be launched across all Kier Regional businesses. They continue to engage widely with communities wherever their work takes them.

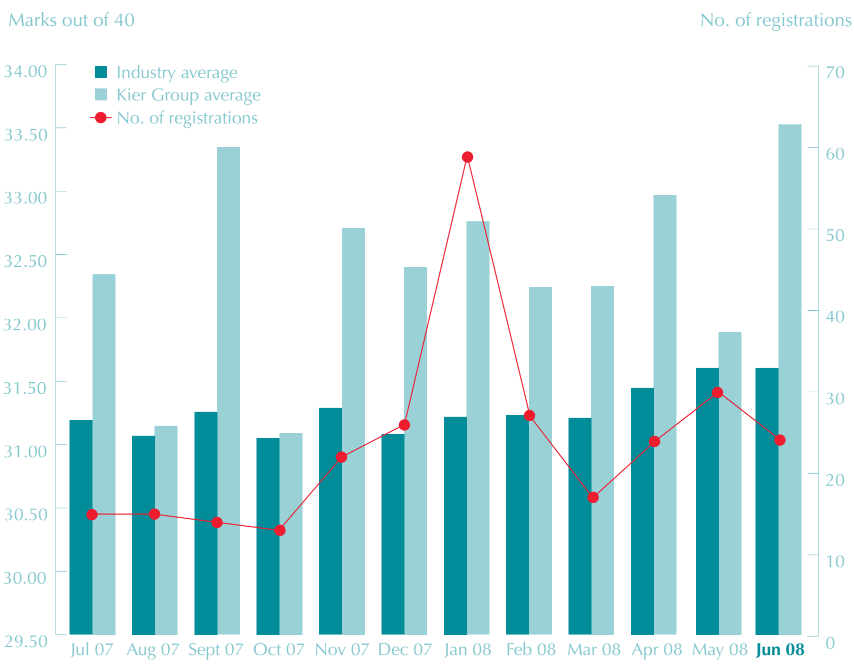
Kier Sheffield LLP was awarded a Big Tick Award for employability by BITC Yorkshire & Humberside for the second successive year in 2008 and once again participated in the BITC Yorkshire & Humberside Environmental Index, improving its score for the fourth consecutive year and maintaining its position in the silver sector of the Index league table, which is an excellent achievement. Kier Building Services Engineers also worked with BITC and the children's charity Kids Club in the London Borough of Hackney, while Kier Build is involved in the Business Action Group coordinated by BITC in the delivery of the vast 67-acre brownfield site being developed by Argent at King's Cross.

Once again our Group training & development department used BITC to help deliver the Group's executive leadership programme, sourcing three projects for nine senior managers/directors on the programme to work on community engagement activities.

Considerate Constructors Scheme: community, safety, environment

From 1 January 2008 the Group became an Associate Member of the Considerate Constructors Scheme and from that date it became mandatory for every eligible Kier site or project to be registered with the scheme and to be assessed under its Code of Considerate Practice. This nationwide scheme and its associated code have been identified by the

CONSIDERATE CONSTRUCTORS SCHEME



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1 Cathy Jamieson, MSP for Carrick, Cumnock and the Doon Valley, presented a safety award to Kier Mining staff and operatives at the Greenburn surface mine near New Cumnock to mark the achievement of five years of operation at the site without any reportable accidents. Receiving the award is Harry Simpson, works manager at Greenburn.

2 Basil Paske of Kier Western explains the construction drawings to a visitor on a site visit at the Torre Abbey refurbishment project, near Exeter.

3 Kier Dubai LLC has set a significant new record for the region by achieving 5,000,000 man-hours without a lost-time accident – representing almost two years of accident-free working. In recognition of this milestone, an award was presented to Kier Dubai general manager Shree Kulkami by Kier Construction general manager Andrew Keir.

Group as a vital tool in improving our reputation, image and, above all, health, safety, welfare and environmental performance. It has all the ingredients and mechanisms necessary for us to monitor, benchmark and improve our performance at site and project level through third-party assessment across a broad range of issues under eight distinct categories:

- Considerate
- Environment
- Cleanliness
- Good neighbour
- Respectful
- Safe
- Responsible
- Accountable

Under these headings, the scheme's third-party, independent auditors assess a project, giving each category a score up to five (the best score) and a full project score up to 40. In this way, we have been able to monitor, on a monthly basis, not only individual project performances, but also those of each operating company and division and, in turn, the Group performance against the national industry average. It has therefore allowed us to identify any areas for improvement under the reporting categories outlined above, the type of project, or a geographical location. More importantly, it has enabled us to demonstrate and share best practice within the Group and to set achievable targets for every project and company to aim for.

The full-year statistics demonstrate that the Group has consistently performed above the industry average every single month in the past reporting year, completing the final month of the year on an average score of 33.6 against the national industry average of 31.6.

It is important to consistently achieve above the industry average and, despite the Group's diversity, we have successfully out-performed the industry average every month in the year. We use these statistics as an internal benchmark against the overall industry average in order to promote improvement for our own operations.

As part of this exercise, we have begun publishing a quarterly Considerate Constructors Scheme performance review as an internal auditing document to help our project teams improve their performance.

Environmental management

During the year, the safety, health & environment (SHE) department further developed its structure of regional environmental managers. This included appointing a sustainability manager for the Group Construction division with responsibility for coordinating and implementing the Group's sustainability strategy and coordinating our environmental management system, which has ISO14001 certification. This provides the framework, externally audited by BSI and other bodies, against which we benchmark our environmental performance.

As part of the implementation of this sustainability strategy, the Group has been active in promoting the environmental aspects of our CR policy, through both the individual businesses, and various Group forums. In November 2007, we held a Kier Group carbon footprint seminar covering the role of design in achieving zero-carbon and low-carbon development, the Code for Sustainable Homes, client demands on carbon footprint for the retail sector and on carbon footprint and the property/commercial sectors.

As a result of these debates and seminars, several new initiatives have been developed. The first is the Carbon Footprint Reduction Initiative. This requires businesses across the Group to monitor the energy they use and put in place measures to reduce energy consumption. The aim is to reduce our carbon footprint by 10% over the next 12 months. Supported by a poster campaign and a monitoring proforma issued to all businesses, this initiative is being rolled out in the autumn of 2008.

Kier Group was well prepared for the introduction of the Site Waste Management Plan regulations that came into effect in 2008. We engaged BRE to produce a bespoke version of their web-based SMARTwaste Plan, which has been adopted by all Kier Group businesses.

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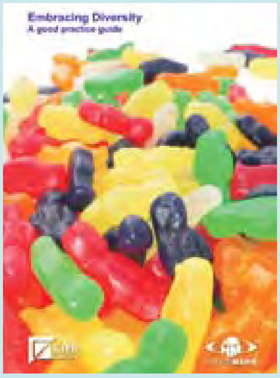

Embracing Diversity

Kier Building Maintenance has worked with performance improvement experts HouseMark to produce a guide showing how a variety of social landlords and maintenance providers have found practical ways of addressing diversity, such as:

- meeting the needs of their diverse customer base to provide an excellent and accessible service
- embedding the values of diversity in their workforce
- ensuring that the composition of their repairs and maintenance workforce reflects the communities they work for.

The guide demonstrates that additional funding and dedicated resources are not always necessary to provide opportunities and a sensitive, responsive and accessible service.

An electronic copy in pdf format can be downloaded from the Kier website.

Using SMARTwaste Plan has ensured a uniform approach to managing construction waste and provided a source of reliable data. The plans are being used not only to demonstrate legal compliance, but also to identify opportunities to reduce waste. These will then be implemented Group-wide.

Kier Regional is currently supporting a Construction Industry Research and Information Association (CIRIA) project to develop an environmental training resource pack based on its successful publication C502 Environmental Good Practice on Site. This training pack comprises a series of presentations together with detailed guidance notes and case studies covering a variety of environmental issues, which can be delivered individually or combined to produce a more comprehensive training session. CIRIA will launch this innovative training resource, which should prove invaluable to the construction industry, towards the end of 2008.

Regionally, all Group businesses have been engaged with a variety of bodies and local initiatives that are collated at the centre to share best practice throughout the organisation. For example, protecting and enhancing a site's biodiversity is one of the aims of the Group strategy for sustainability and is a highly visible means of demonstrating our commitment to sustainable development. Marriott Construction recently undertook to protect the wildlife on its EDS project, resulting in their project manager addressing the Construction Industry Environmental Forum's seminar on putting biodiversity into sustainable construction. Likewise, Kier Eastern's Norwich Schools projects have involved providing bat bricks in the new school building, supplying bat boxes for the children to build, for placing in trees within the school grounds, and building bug boxes and compost bins amongst other activities. Moss Construction continues to gain national awards (18 to date) for its environmental flagship building of the National Trust headquarters in Swindon.

Amongst others, Kier South East, Kier Eastern and Kier Retail have been organising a series of workshops to help key members of their respective supply chains develop their own environmental management systems. Facilitated by White Young Green Environmental and funded by the Government BREW (Business Resource Efficiency & Waste) programme, these workshops aim to provide environmental management system guidance for companies to be independently audited and then accredited through various phases to achieve BS8555, a stepping stone to the Group's own ISO14001 accreditation. Several subcontractors have now been accredited at various levels of BS8555 due to these Group initiatives.

Donations to charities

During the year ended 30 June 2008, the Group companies donated, directly and indirectly, £127,000 (2007: £109,000) to a wide variety of charities and other establishments across the UK and overseas. As in the past, we record direct Group cash donations annually (see directors' report on page 41), but within this report we are again monitoring all of our external sponsorship, including those sums raised by individuals and teams in sporting activities.

Towards the end of the year, the Board agreed to sponsor Team GB in some way for the Beijing Olympic Games. Rather than donate to the generic cause, we directly supported the Huntingdon Gymnastics Club, being local to the Group head

ENVIRONMENTAL KEY PERFORMANCE INDICATORS FOR THE CONSTRUCTION DIVISION

	Actual 2005	Actual 2006	Actual 2007	Actual 2008
Cost of waste as % of revenue	0.37	0.35	0.33	**0.33**
Kilogrammes of carbon emitted per square metre	82.63	74.13	49.16	**65.00**
Environmental training days per person per year	0.19	0.10	0.15	**0.17**
Prosecutions	nil	nil	nil	**nil**

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1 Pupils from Morelands Primary School in Hampshire, one of 16 projects by Brazier for Hampshire County Council to provide children's centres at schools across the county. The children are pictured with their winning poster designs following a safety talk by Brazier staff. Brazier director Shane Mason (right) and site manager Pat Woods (left) are pictured with the children and head teacher.

2 The Group donated £10,000 to the Huntingdon Gymnastics Club for a variety of new equipment including a new vaulting horse and safety matting. Pictured are Paul Sheffield, of Kier Group, with Louis Smith (19, who won a Bronze Medal in the pommel horse event at the Beijing Olympic Games) and Daniel Keatings, Olympic finalist, together with head coach at the club Paul Hall.

office in Sandy, and which sent four of its members to Beijing for the Games.

The key areas of Group support during the year are as follows:

KEY AREAS OF GROUP SUPPORT DURING THE YEAR

£000's	2008	2007
Education	6	3
Sport	16	27
Wider community events	41	23
Employee sponsored challenges	6	2
Direct support for needy	26	44
Other	32	10
Total	127	109

Some of the notable charities supported by Group businesses and individuals included:

- CLIC Sargent (Cancer and Leukaemia in Childhood)
- Macmillan Cancer Support
- Wildlife Trust
- Meningitis Research Foundation
- CRASH (The Construction and Property Industries' Charity for Homeless People)
- Fire Services Benevolent Fund
- Care UK
- Breast Cancer Campaign
- Race for Life
- Great Ormond Street

People development and training

The Group is committed to the lifelong development of all its employees. Our approach involves recruiting talented people into the industry and providing a career development framework that supports people from entry level to senior leadership and prepares our teams to meet and exceed our customers' requirements. Our career development framework incorporates a series of programmes, covering people at all stages of their careers.

We are committed to our Equal Opportunities policy which encourages job applications from all sectors of the community. This is demonstrated by the diversity of the people recruited.

At the introductory level of our career development programme, we recruited over 115 graduates and 100 students to start their professional careers in 2008. We offer a comprehensive and structured graduate scheme that includes technical and managerial training to recognised professional standards. This helps to motivate people in the Group to achieve their career goals, and to attract high levels of new recruits. The Group continues to work with schools, colleges, universities and careers advisors to promote the construction industry as a career choice and has over 200 people currently studying for technical qualifications on various training schemes who joined the Group as school-leavers. The Group also has over 160 craft apprentices in construction skills. Some of these apprentices have been recognised by their craft guild as outstanding tradesmen through winning various skills competitions.

Over 12% of our workforce is on new entry training programmes, and this helps us to maintain and improve the talent of our workforce. In January 2008, we entered 45 school-leavers and experienced tradesmen onto a foundation degree instigated and designed by the Group and set up with Oxford Brookes University. This is a unique foundation degree delivered through distance learning and block release centred on cutting-edge construction practices. The programme delivers learning specifically for modern contractors.

The Group actively encourages all employees to achieve full professional membership in their relevant discipline. Our graduate scheme trains employees to full membership in recognised professional institutions. We currently have over 70 professional and technical staff working towards a construction management National Vocational Qualification (NVQ). Additionally, we accredited over 55 plant operators in specialist plant NVQs at our Greenburn opencast mining site. Our technical training is based around the findings of various best practice groups and helps to disseminate knowledge around the Group, adding value for our clients.

During the last year, we have launched a site management academy aimed at our housebuilding

Sustainable procurement policy

A key component of the Group's overall sustainability strategy is having in place a robust procurement policy.

The policy's objective is to ensure that, as far as is practicable, we purchase materials and services that through their use, sourcing, or manufacture, have the smallest impact on both society and the environment.

We will look to achieve this through:

- raising awareness of the policy within the Group
- providing training and guidance to enable staff to make informed and responsible decisions when purchasing materials and services
- ensuring that our supply chain, including clients, designers, subcontractors and suppliers, are aware of this policy
- working with our supply chain to identify those products that have a harmful effect on the environment and find alternatives that are less damaging where practicable
- using, where feasible, products made from reclaimed or recycled materials
- influencing the contract specification so as to include, where relevant, a requirement for sustainable procurement
- taking into account a subcontractor/supplier's commitment to sustainable procurement when assessing their suitability as a supply chain member.

We will monitor our performance and include our findings in an annual sustainability statement. We will ensure that examples of best practice are identified and disseminated throughout our business.

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1 Under the guise of Moss the Magic Dragons, a team from Moss Construction participated in a dragon boat race to raise funds for CLIC Sargent, a charity concerned with cancer and leukaemia in childhood.

2 Dumpy, a refuse collection vehicle, was converted by Kier Street Services into a recycling, re-use and waste-saving educational vehicle which is used to spread important messages on the environment to children and parents alike at a variety of locations.

site staff. This programme has been shortlisted for the 2008 Innovation in Training awards by the National House-Building Council (NHBC).

Our aim is to develop our staff into our future management. We believe this delivers long-term continuity and success for the Group. Our management development programmes have supported us in ensuring that our future management is continually developed from within the Group.

The Group runs an executive and directors' development programme based around defined competencies providing structured development to senior management and directors. This is linked to the Group's strategy of sharing best practice around the Group. As part of the programme we have incorporated a series of voluntary community projects led by the participants to prepare them for further corporate responsibility as well as supporting their leadership skills development.

We are very proud that in 2007 Kier Group was awarded the Contract Journal award for training for the second year in succession, a fantastic endorsement by the industry of the quality of our approach to people development.

At the beginning of 2008, we implemented a Group-wide employee engagement survey to understand how our people feel about working for the Group and how we can improve engagement levels. The results reveal that our people strongly identify with the Group and we have a favourable level of highly engaged people compared with UK industry averages. We have planned improvements to enhance the engagement of our people over the next two years and intend to use the survey as a key business measure every two years.

The Group works to overcome industry challenges such as skills shortages through its work with schools, colleges and universities. We focus on customers by ensuring our workforce is fully competent and able to deliver best practice for clients. The continual investment in people is embedding a deep-rooted development culture to maintain our long-term success.

NUMBER OF EMPLOYEES REGISTERED ON COURSES OR DEVELOPMENT PROGRAMMES IN 2008

School-leavers studying for technical qualifications	200
Craft apprenticeships in construction skills	160
Foundation degree at Oxford Brookes University	45
NVQ accreditation for plant operatives	67
Construction management NVQs	70
Sponsorships/internships	102
Graduate schemes working towards professional accreditation	220
Total	864

The Group has delivered approximately 21,500 training days during the year (2007: 17,000) and 14% of our construction workforce is engaged on new entry training programmes.

Health & Safety

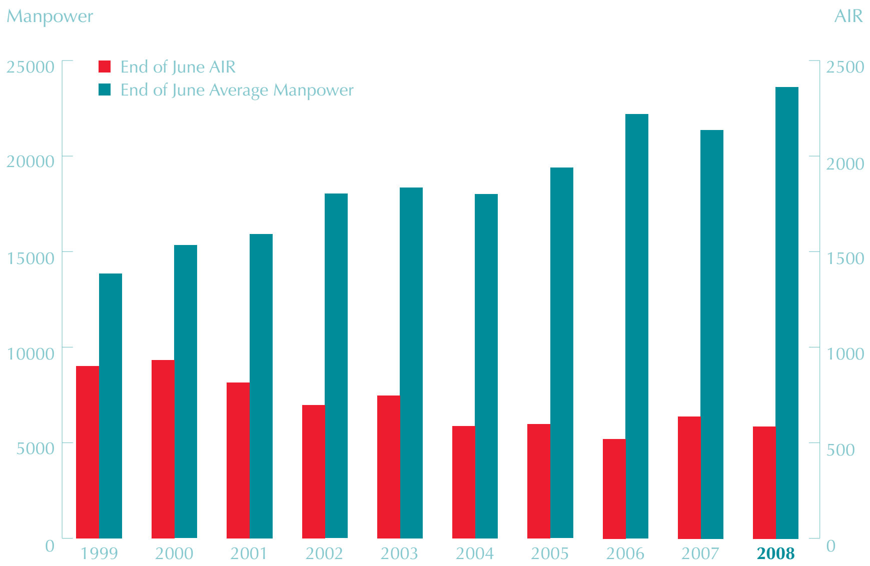
Group companies have in this past year diligently focused on getting back to basics to ensure we create and maintain safe sites. A strategic review of current SHE procedures is being rolled out across the Group with the aim of ensuring a simple process that is understood by both employees and supply chain members. The progress made last year on people issues has helped shape our current strategy which aims to ensure a practical safety approach that facilitates safe working processes on site.

Health & safety training has increased across the business and the Group has been instrumental in the Major Contractors' Group (MCG) development of the Construction Skills Supervisor course soon to be delivered across the industry. This benchmark course will set the standard of SHE training for construction supervisors not just in the Group but in the construction industry UK-wide.

As a Group we are embarking on a positive safety leadership campaign that is supported by the British Safety Council. This campaign will build on our current behavioural successes in Kier Support Services and our joint venture water business KMI Plus. It will challenge behaviour across the Construction division and will help all employees to examine their personal behaviour and to implement the positive actions required for an improved performance in SHE. This approach is needed

At 30 June 2008 the Kier Group AIR was 588 per 100,000 staff and subcontractors, measured against a HSE benchmark of 865. This compares with our 2007 AIR of 640 per 100,000 staff and subcontractors measured against an HSE benchmark of 946.

AIR v MANPOWER TEN-YEAR CHART



to ensure that the positive work that has already been delivered throughout the Group is further strengthened and developed.

Using the approach of safe and unsafe acts recognition, we will reinforce the positives and with support and education develop and promote a positive safety culture in the weaker areas. Our subcontract supply chain members will also be asked to partake in this programme and we believe this open, honest and proactive leadership programme will further enhance the positive safety culture partnerships we currently enjoy with our supply chain. More details are shown in the AIR performance chart above.

Occupational health

We have focused on a number of areas to put the 'health' back into health & safety throughout the year. We employed a specialist occupational health manager who has reviewed and streamlined the occupational health processes that were in place and we will continue to develop these processes to raise awareness both within the Group and our supply chain. One highlight of the occupational health programme has been the highly successful Men's Health Roadshow. The occupational health team, supported by nurses and consultants, visited a large number of our sites throughout the UK promoting a host of subjects including personal health issues, general health awareness, healthy eating and task-related health awareness. This proactive site-level approach to occupational health was very well received by both employees and supply chain members, raising awareness of personal health issues in a practical and understandable way.

The longer-term education focus will be to reinvigorate occupational health issues at induction and as a fundamental part of any design and safe system of work. This approach will also include a health surveillance programme to ensure that we continue to promote health awareness.

Our focus for the new year will be to continue to raise awareness of safe working and occupational health throughout the Group and our supply chain.

RoSPA/BSC AWARDS RECEIVED IN 2008

AWARD	2008	2007
RoSPA gold medals	12	11
RoSPA gold awards	10	9
RoSPA silver awards	1	1
RoSPA bronze awards	0	2
British Safety Council national awards	17	16

Customers

Customer care remains at the heart of our vision and core values: By providing our clients with the highest possible quality of service and through sustainable, profitable growth, our vision is to be the most highly respected Group in the industry. Our volume of repeat and negotiated business and particularly the number of partnering frameworks in which we operate clearly demonstrates our commitment to customer service, quality of service and our focus on delivering value and innovation.

The diverse nature of our business divisions enables us to enhance our customer relations and community relations across a broad spectrum from business-to-business on one hand to direct consumer relations on the other. The Support Services division is not only focused upon the local authority clients, but especially upon the residents and tenants in whose homes we are working for repairs, maintenance, refurbishment and upgrading. Similarly, our Homes division delivering private homes and Kier Partnership Homes working on affordable housing have particular obligations to customer care and after-sales service.

In the context of both construction and support services, our adoption of the Considerate Constructors Scheme and our becoming an Associate Member of the scheme signals a further commitment by us to assume measurable responsibilities towards our customers, the communities in which we work and the environment impacted by that work.

We constantly monitor and report every quarter through our Kier Regional key performance indicator reports on customer satisfaction levels based upon feedback on their perception of us measured on points up to a maximum of 9.0. It resulted in Kier Regional achieving an overall figure of 8.6 against a target set at 8.0 for the year.

FINANCIAL REVIEW

Deena Mattar | Finance Director

INTEGRATED BUSINESS MODEL

CASH GENERATED FROM OPERATING ACTIVITIES

£56.6m

DIVIDEND PER SHARE

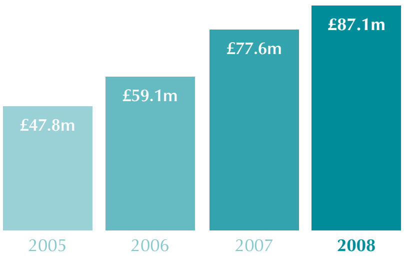
55.0p

+10.0%

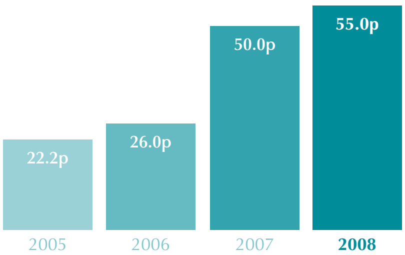
(2007: 50.0p)

PROFIT BEFORE TAX

(before exceptional items)

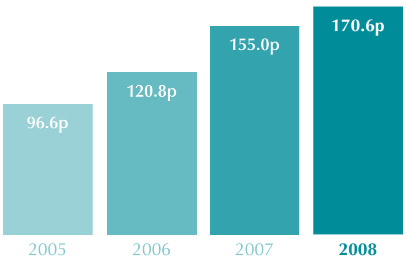


DIVIDEND PER SHARE



EARNINGS PER SHARE

(before exceptional items)

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1 Kier Property and Wallis are combining to deliver the new UK Supreme Court at Middlesex Guildhall in London. Kier Plant has provided craneage and Kier Engineering Services has provided structural engineering technical support for the project.

2 As part of the ongoing relationship we have with John Lewis Partnership through the Kier Retail strategic alliance, Kier Southern built this 27,000sq ft Waitrose retail store in Rickmansworth, Hertfordshire.

Accounting policies

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

Underlying profit before tax and exceptional items

Underlying profit before tax and exceptional items increased by 12.2% to £87.1m (2007: £77.6m). This is stated after deducting joint venture tax of £1.1m (2007: £1.4m) and before minority interests of £1.0m (2007: £0.8m). The share of minority interests relates to Sheffield City Council's and Harlow Council's share of profits from our building maintenance outsourcing contracts.

Exceptional items

Exceptional items amounting to a charge of £24.6m, before tax, were incurred in the year as follows:

	£m
Profit on the sale of our 50% investment in Hairmyres Hospital (PFI)	16.2
Redundancy and reorganisation costs associated with our Homes division	(9.5)
Provisions against land and work in progress:	
Homes	(26.6)
Property	(4.7)
Total exceptional items	(24.6)

During the year we sold our investment in a PFI asset, Hairmyres Hospital in Scotland, for a consideration of £13.8m which, when combined with a refinancing gain deferred from August 2004, resulted in a profit on disposal of £16.2m. This represents a discount rate of less than 5%.

The exceptional costs relating to the restructuring of the Homes division include the cost of consolidating five administrative offices into one and the redundancy costs associated with 390 employees, representing around 60% of our Homes workforce. These measures have been taken to reflect the continuing deterioration of the housing market, which has also caused us to examine the carrying values of our land and work in progress. Consequently we have written down our residential land by £26.6m (including £1.0m relating to aborted land purchases). We have also reviewed the carrying values of our property development portfolio and have taken write-downs of £4.7m, £1.5m of which relates to our wholly-owned business and £3.2m relates to properties held in our joint venture with the Bank of Scotland.

Taxation

The Group's effective tax rate, including joint venture tax on joint venture profits but excluding exceptional items, is in line with last year at 29.0%, which is marginally below the statutory rate of 29.5%. Exceptional items have been taxed at the statutory rate, except the profit on disposal of the PFI asset as £8.3m was attributed to a refinancing gain which was taxed in an earlier accounting period.

Interest and cash

The interest received for the year comprises the following:

	Year to 30 June	
	2008	2007
	£m	£m
Group interest receivable	**9.8**	6.9
Interest payable	**(2.2)**	(2.6)
Unwinding of discount	**(4.3)**	(4.6)
Share of joint venture interest	**(2.4)**	(2.9)
	0.9	(3.2)

The Group interest receivable includes that arising from average treasury balances of £95m for the year (2007: £65m). The charge of £4.3m relating to unwinding of discounts includes £3.1m relating to land creditor balances (2007: £3.9m).

Net cash at 30 June 2008 was £143.9m (2007: £148.4m) after deducting £30.2m relating to loan notes. £56.6m was generated from operations during the year after deducting £6.0m (2007: £11.0m) in respect of special pension contributions made during the year.

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Cash, net of debt, at 30 June 2008 includes £44.9m (2007: £44.3m) of cash which is not generally available for Group purposes, including that held by joint arrangements, overseas and other cash not readily available to the Group. The liquid cash position is affected by seasonal, monthly and contract-specific cycles. In order to accommodate these flows the Group maintains a range of bank facilities of £115.0m comprising £12.5m of overdraft facilities and £102.5m of committed, revolving credit facilities all on an unsecured basis. £10.0m of this expires in January 2009 and £92.5m expires in January 2011.

Treasury policy and risk management

The Group has bank facilities amounting to £115m and long-term debt of £30m managed by the centralised treasury function.

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

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

Balance sheet and total equity

The balance sheet at 30 June 2008 includes intangible assets of £13.4m of which £8.2m relates to building maintenance contracts including £5.7m for the outsourcing contract at Sheffield which is being amortised over ten years, £0.7m for Harlow and £1.8m for Stoke which was acquired during the year.

Total equity has increased marginally during the year to £183.1m (2007: £183.0m).

Inventories

An analysis of inventories is given below:

	At 30 June 2008 £m	2007 £m
Residential land	**276.0**	273.5
Residential work in progress	**161.7**	112.3
Property land and work in progress	**24.8**	30.2
Other work in progress	**53.9**	44.1
	516.4	460.1

The Group conducted a review of the carrying value of its housebuilding land at 30 June 2008 in accordance with normal practice and accounting standards. The review was carried out on a site-by-site basis using appraisals incorporating forecast sales rates and selling prices that reflect trading conditions and paying particular attention to sites with low sales rates. As a result we recognised an impairment of the housing land bank of £25.6m together with costs associated with aborted land purchases of £1.0m. This represents 5.7% of our Residential land and work in progress.

The Group also reviewed the land and work in progress held within its Property business taking into account the marketplace and in particular increasing yields which identified the need for an impairment of £3.2m (our share) in our joint venture business and £1.5m in our wholly-owned business. These write-downs represent 4.8% of development book values.

Pensions

The Group participates in two principal schemes, the Kier Group Pension Scheme, which includes a defined benefit section, and a defined benefit scheme on behalf of its employees in Kier Sheffield LLP. The financial statements reflect the pension scheme deficits and surpluses calculated in accordance with IAS 19. At 30 June 2008 the net deficit under the Kier Group Pension Scheme was £32.9m (2007: £21.9m). The market value of the scheme's assets was £538.4m (2007: £506.7m) and the net present value of the liabilities was £584.1m (2007: £537.3m). The increase in liabilities represents an increase in salary inflation and experience losses taken in the year.

We have been addressing the issue of pensions over a period of several years and in the last three years have contributed £60.5m in special contributions including £6.0m during the year to 30 June 2008 (2007: £11.0m). The special contributions have no effect on the income statement for the year, but are shown as a reduction in cash and a reduction in the pension deficit.

Under the scheme relating to Kier Sheffield LLP there was a net deficit of £0.7m for the year (2007: surplus of £4.9m).

Pension charges of £7.6m (2007: £11.7m) have been made to the income statement in accordance with IAS 19.

Deena Mattar
Finance Director

BUSINESS RISKS

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Business risks

Core to our continued success is our ability to identify and effectively manage the risks to our business. Accordingly the Group has well defined, rigorous policies and processes designed to identify, mitigate and control risk. Risks are specific to each of our businesses and are controlled through the Group's risk management processes. The primary risks that have the potential to adversely impact on our business over the next twelve months are considered to be as follows:

- Contract and build risk: We carry out several hundred contracts annually and the risks to which the Group is exposed are dependent upon the nature of the work, the duration of the contract and the legal form of the contract. The Group's appetite for very long-term, large, competitively tendered construction contracts is limited, driven by the desire to manage risk. Tenders for contracts are subject to approval by the Board, chief executive and finance director or divisional directors depending on the value and nature of the contract. Contracts in progress are controlled and managed through the Group's operating structure and procedures including rigorous and regular review of forecast revenue and costs to complete.
- Land acquisition risk: The cost and quality of land is fundamental to the profitability of a housing development business. Site evaluation is a key process and site appraisals are carried out in detail including external advice where appropriate. Land acquisitions are subject to approval by the Board, chief executive and finance director or divisional directors depending on the value and nature of the contract. Developments in progress are controlled and managed through the Group's operating structure and procedures including rigorous and regular review of forecast revenue and costs to complete.

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- The housing market: Our ability to sell houses depends on the demand for housing which, in turn, is linked to consumer sentiment. We manage the exposure by ensuring that we closely control levels of work in progress to match the level of demand. Prices and incentives are reviewed regularly and adjusted as appropriate.
- Property development risk: Similar to housing land acquisition, acquiring the right property at the right price is fundamental to the profitability of the Property division. The division controls its development risk by commencing construction generally when it has either pre-sold or pre-let the development. Board approvals are required depending upon the value and nature of the development.
- Investment risk: The Group is selective in the PFI projects for which it bids, primarily concentrating on the sectors where we have established construction expertise.
- People are the key to this business and good people are a scarce resource. It is important that we attract the best, look after them and retain them. Health & Safety is a key feature and we have rigorous health and safety policies aimed at minimising health and safety incidents that may affect any staff, subcontractors and members of the public coming into contact with our business activities.
- Pension scheme deficit: The pension scheme liabilities and assets are subject to market movements and, although a long-term issue, regulations require us to respond to these long-term issues over the short term. Steps have been taken to eradicate our calculated deficit over a timeframe agreed with the scheme trustees.
- Counterparty risk: The Group depends for its success on the stability of its customers, suppliers, funders, bondsmen and insurers. Considerable efforts are made to assess the financial strength of counterparties before entering into contract and to structure payments so as to mitigate our financial exposure to them for the duration of our relationship. Where the Group is particularly dependant on the continued financial strength of the providers of key financial services to the Group, we take steps to spread this exposure across a range of counterparties so as to diversify the risk.

1 HM Prison Wayland is one of many prisons provided with new facilities, extensions and/or refurbishment work by Kier Regional companies throughout England for the Ministry of Justice Custodial Properties framework. The work here was undertaken by Kier Eastern.

2 Kier Scotland has completed the construction of several hotels and hotel extensions. This track record has helped deliver exceptional residential accommodation for students now occupying two four-storey units at Fettes College in Edinburgh.

3 Kier Eastern constructed a Ryanair hangar and flight simulator at Stansted Airport to accommodate up to five Boeing 737 aircraft at one time. During the year, Kier was appointed by BAA plc as one of its Commodity Build Framework contractors for a total of £650m of projects over five years at Heathrow, Gatwick, Stansted and a number of other UK airports.

BOARD MEMBERS

Phil White CBE
(non-executive chairman)
Aged 59, was appointed as non-executive chairman of the Group in November 2007 having joined as a non-executive director in July 2006. He served as chief executive of National Express Group plc from January 1997 to September 2006. He is a chartered accountant and has extensive experience of both listed and private companies. He is currently chairman of Lookers plc and ACIS. He is chairman of the Nomination Committee and a member of the Remuneration Committee.

Deena Mattar
(finance director)
Aged 43, was appointed to the Board as executive director in September 2001. She joined Kier in 1998 from KPMG where she developed an in-depth knowledge of construction. She held the role of finance director of the Group's major projects construction arm until July 2001 and was appointed Group finance director in November 2001.

Paul Sheffield
Aged 47, joined the Group as a graduate engineer in 1983. He has extensive knowledge of both UK and overseas contracting. He was appointed to the Board in October 2005 with responsibility for the Group's infrastructure and overseas businesses as well as holding the position of deputy managing director of Kier Regional. In November 2008, following the retirement of Dick Side, he will assume responsibility for all of the Group's construction activities.

John Dodds
(chief executive)
Aged 63, was appointed chief executive in May 2003 and has been with the Group since 1970. He has spent time overseas working particularly in Africa and Hong Kong, returning to the UK to lead the civil engineering business. He was a member of the Board which led the employee buy-out of Kier from Hanson in 1992 and then the flotation of Kier Group plc in 1996. He holds the position of director with overall responsibility for safety, health & environmental matters and is a member of the Nomination Committee.

Ian Lawson
Aged 51, rejoined the Group in November 2000 as managing director of the Group's Infrastructure Investment operations. His knowledge of major overseas and UK contracting was established early in his career within the Group. He has served on both the Kier Regional board as well as the Support Services board. In October 2005 he was appointed main board director responsible for Support Services and in July 2008 his responsibilities were extended to include the Homes division, embracing both the private and social housing businesses.

Dick Side
Aged 62, joined Wallis in 1983 as managing director of its Construction division. His 25-year career with the Group has been spent in regional contracting and he was appointed managing director of Kier Regional in 2001. In January 2003 he became main board director responsible for the Group's Regional construction division. He retires at the Company's annual general meeting in November 2008.

Dick Simkin

Aged 60, joined the Group in 1989 and has made a significant contribution to strengthen Kier's presence in the property sector. He played a key part in the Group's acquisition of Laing Property in 2002 and was appointed to the Board in 2003 as director responsible for the Group's Property division. In July 2008 he took on the additional responsibility for Kier Project Investment and the new business stream Kier Asset Partnership Services.

Simon Leathes
(non-executive)

Aged 60, was vice chairman for support services at Barclays Capital, the investment banking division of Barclays PLC, from January 2001 to December 2006. He previously held senior appointments at Lend Lease Corporation, Hambros PLC and SG Warburg Group plc and now provides financial and investment advice to companies and institutions. He was appointed to the Board in March 2001 and is chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

Chris Geoghegan
(non-executive)

Aged 54, was appointed to the Board in July 2007. He joined the Board of BAE Systems plc in July 2002 as chief operating officer with responsibility for all European joint ventures and UK defence electronics assets. He is a non-executive director of Hampson Industries, a Fellow of the Royal Aeronautical Society and a past president of the Society of British Aerospace Companies. He is the senior independent director, chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

Matthew Barton
(company secretary)

Aged 34, joined the Group in September 2004 from lawyers Cleary, Gottlieb, Steen and Hamilton, where he advised the Group on a variety of issues. At Cleary Gottlieb he had a wide-ranging commercial practice including advising both public and private clients on major domestic and cross-border transactions. He is responsible for corporate governance within the Group and, as general counsel, has oversight of the Group's legal affairs.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 30 June 2008.

Principal activities and business review

The Group's principal activities are construction, support services, residential and commercial property development and infrastructure project investment.

A review of the Group's business and progress is given on pages 4 to 37.

Results and dividends

The Group profit for the year after taxation and exceptional items was £48.2m (2007: £56.3m).

An interim dividend of 18p per share (2007: 9.6p) amounting to £6.5m (2007: £3.5m) was paid on 2 May 2008. The directors propose a final dividend of 37p per share (2007: 40.4p per share) amounting to £13.5m (2007: £14.5m) payable on 28 November 2008 to shareholders on the Register of Members at the close of business on 26 September 2008.

Share capital

Details of shares allotted by the Company during the year appear in note 22 of the consolidated financial statements.

Directors

The directors of the Company as at 17 September 2008 are shown on pages 38 and 39, all of whom were directors throughout the year. Mr P T Warry stepped down from the Board on 31 December 2007. Mr M O'Farrell stepped down from the Board on 6 June 2008.

At the forthcoming annual general meeting resolutions will be proposed for the re-election of Mr J Dodds, Mr R W Simkin and Mr S W Leathes. At that date, the unexpired term of the contract of employment with the Company of each of the executive directors will be 12 months.

Details of directors' interests are disclosed in the directors' remuneration report on page 48 and 49.

The articles of association of the Company provide for the indemnification of its directors out of the assets of the Company in the event that they suffer any loss or liability in the execution of their duties as directors and the Company has entered into deeds of indemnity with its directors entitling them to be indemnified to the extent permitted by statute.

The Company has insurance in favour of its directors and officers in respect of certain losses or liabilities to which they may be exposed due to their office.

Substantial voting rights

At 15 September 2008 the Company had been notified of the following interests in the ordinary share capital of the Company:

Standard Life Investments Limited	11.09%
Legal & General Plc and its subsidiaries	5.34%
J P Morgan Chase & Co	4.73%
Lloyds TSB Group plc	4.49%
Barclays Global Investors	3.07%

Employees

The companies in the Group are equal opportunity employers. The Group provides relevant information on matters of concern to employees through newsletters and formal and informal meetings with local management. The Group encourages and assists, whenever practicable, the recruitment, training, and career development of disabled people and the retention of those who become disabled during the course of their employment and who can be employed in a safe working environment. The Group operates a sharesave scheme for all eligible employees and makes available a dealing service to enable employees to buy and sell its shares with a minimum of formality and on attractive commission terms. The Group also operates an AESOP scheme for all employees which comprises a share matching element.

Combined Code

A statement on corporate governance is set out on pages 42 to 44.

Going concern basis

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Donations

Group donations to charity in the United Kingdom were £72,000 (2007: £71,000). In addition the Group has considerable involvement in the community as set out in the corporate responsibility report on pages 27 to 33. No political donations were made (2007: nil).

Policy on payment of creditors

The Group agrees payments with its suppliers and subcontractors on an individual contract basis rather than following a standard code. The policy is to abide by these agreed terms whenever it is satisfied that the suppliers or subcontractors have provided the goods or services in accordance with the contract terms and conditions. The aggregate amount owed to trade creditors by the Company at the end of the year was nil (2007: nil).

Subsidiary trading companies within the Group, acting in accordance with the above policy, exhibit creditor days averaging 28 (2007: 32) in respect of suppliers of invoiced goods and services and 18 (2007: 20) in respect of certified amounts due to subcontractors. These figures exclude amounts not currently due for payment but included within trade creditors.

Financial instruments

Details of the financial risk management objectives and policies of the Group along with its exposure to material financial risks are set out in notes 1 and 26 of the consolidated financial statements.

Auditors

A resolution for the reappointment of the auditors, KPMG Audit Plc (KPMG), will be proposed at the annual general meeting. The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed on behalf of the Board.

M D Barton
Secretary

17 September 2008
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

CORPORATE GOVERNANCE STATEMENT

The Code

The Board recognises the importance of high standards of corporate conduct and is committed to managing the Group's operations in accordance with the best principles of corporate governance as contained within Section 1 of the Combined Code on Corporate Governance issued in June 2006 and has complied with it throughout the year except as explained below.

Independent non-executive directors comprise less than half of the Board. Consultants have been engaged to conduct a search for an additional non-executive director, a process which remains ongoing. Furthermore, Mr R W Side will retire in November 2008 and there are no plans to nominate any additional director to the board on his retirement. It is not currently proposed however that the balance of the Board be altered further after these changes, as it is felt vital that the diverse elements of the Group be represented by executives at Board level and that to match each of these executives with non-executives would produce a board which would be unwieldy and not produce any tangible benefit for shareholders.

Neither the Remuneration Committee nor the Audit Committee comprised the three independent non-executive directors required by the Combined Code. This will be addressed with the appointment of a further non-executive director in due course, as described above.

Independent non-executive directors do not comprise a majority of the Nomination Committee. This will be addressed with the appointment of a further non-executive director in due course, as described above.

Board of directors

The Board of Kier Group plc is responsible to its shareholders for the success of the Company. It sets the strategic and financial policies of the Group, monitors and reviews business performance and controls risk. As part of the Group's organisational structure (described on pages 43 to 44 under 'Internal control') the Board has put in place standing orders which are designed to ensure the provision to it of relevant information on a timely basis, which set authorisation limits and which reserve certain matters for the Board or its committees, including:

- strategy and financial policy;
- the approval of financial statements;
- risk management;
- major capital expenditure;
- major project approval;
- acquisitions and disposals; and
- certain aspects of human resource policy, including senior appointments, general salary reviews, employee share plans and pension provision.

The principal matters considered by the Board during the year included:

- the Group's budgets, strategy and financial requirements;
- the full and interim reports and accounts (taking into account the views of the Audit Committee);
- interim management statements;
- the Group's final salary pension scheme;
- the implications of and proper approach to the issues with the Castlepoint Shopping Centre car park, Bournemouth;
- potential acquisitions;
- the implications of prevailing economic conditions and the response to them;
- material operational opportunities;
- health & safety strategies and particular issues as they arose;
- the investigation by the Office of Fair Trading into alleged cover pricing by a Group company including the introduction of a competition compliance policy and the audit of the implementation of the policy by PriceWaterhouseCoopers; and
- presentations as to strategic issues from the senior management of a number of the divisions.

The Group's chairman is Mr P M White who leads the Board and succeeded Mr P T Warry on 1 January 2008. He is responsible for its effectiveness and sets its agenda. He facilitates the effective contribution of the non-executive directors and ensures a positive and constructive relationship between the executive and non-executive directors. The chairman is also responsible for effective communication with shareholders.

The chief executive is Mr J Dodds who is responsible for the operational management of the Group and is accountable to the Board for the implementation of the Group's strategy. In order to facilitate this, the chief executive meets monthly with a management committee comprising the other executive directors, he also chairs monthly management meetings with each of the divisions. As director responsible for human resource matters and health & safety he also meets regularly with the human resources director and the director of safety, health & environment.

The senior non-executive director is Mr C V Geoghegan who succeeded Mr P M White in that role on 1 January 2008.

Biographical details of all the directors are set out on pages 38 and 39. All the directors served throughout the year. The Board considers Mr C V Geoghegan and Mr S W Leathes to be independent.

A table of attendance of directors at meetings of the Board and its various committees is set out on page 43. In addition to these meetings, the full Board attends an annual away-day which focuses on strategy, material issues facing the Group and succession planning. Outside of the formal schedule of meetings, the non-executive directors met without the executive directors a number of times during the year.

All directors have access to the advice and services of the company secretary and the directors are able to seek independent professional advice if necessary at the Company's expense. Training is available for new directors and subsequently as necessary. All directors are subject to election by shareholders at the first annual general meeting following their appointment, and to re-election thereafter at intervals of no more than three years. Executive directors are required to seek approval from the Board before accepting any external non-executive positions, although none is currently held.

The Remuneration Committee and Board encourage directors and staff at all levels to acquire shares in the Company and to hold them for the longer-term. This sense of ownership is an important element of Kier's culture and of its focus on long-term performance. As far as possible the Group prefers to promote individuals from within.

Board evaluation

The chairman carried out an evaluation of the Board in the summer of 2008. This included all the committees of the Board. The chairman held individual meetings with each director to discuss their views and to canvass suggestions. The conclusions were discussed collectively by the Board and a number of actions agreed. The performance of the chairman is reviewed separately in a process led by the senior independent director.

The terms and conditions of appointment of the non-executive directors are available for inspection at the registered office and will be on display prior to and at the annual general meeting.

Audit Committee

The Audit Committee comprises the two independent non-executive directors under the chairmanship of Mr S W Leathes, a chartered accountant with recent and relevant financial experience. The Committee met three times during the year in September, March and June prior to the Board meetings. These Committee meetings were also attended by the finance director and the head of internal audit. The KPMG audit engagement director attended the September and February meetings. The chairman and executive directors were also invited to attend the meetings. The Committee also met with KPMG without management being present.

The Committee has clearly defined terms of reference which outline its objectives and responsibilities relating to financial reporting, internal controls, risk management and the application of appropriate accounting policies and procedures. Specific responsibilities include reviewing and recommending for approval the annual and interim financial statements, reviewing the Group's accounting policies, reviewing the effectiveness of internal controls and risk management and reviewing the scope and results of the external audit.

The Committee also has responsibility for overseeing the Group internal audit function including approval of the annual risk-based audit plan and monitoring the work, recommendations and effectiveness of the function. The head of internal audit reports directly to the chairman of the Audit Committee.

At each of its meetings the Committee received and reviewed a report from the head of internal audit which highlighted the status of the Group risk management processes and audit activity against the approved plan together with the findings from internal audits. The chairman of the Audit Committee also met regularly with the head of internal audit and the Committee has met with the head of internal audit without management being present. The Committee carried out a review of the effectiveness of the internal audit function at the June meeting.

The Committee is responsible for monitoring the independence and objectivity of KPMG, the external auditor, and agreeing the level of remuneration and extent of non-audit services. The Committee received a presentation from KPMG on its audit strategy and the scope of work at the February meeting which it agreed. It also discussed the firm's professional ethical standards.

The Committee reviewed the performance of KPMG and the level of non-audit fees paid to them during the year, which are set out in note 3 to the consolidated financial statements. The provision of non-audit services, other than tax compliance and routine taxation advice, must be referred to and agreed by the Committee over a pre determined cost threshold and any work costed below that threshold must be pre-approved by the Group finance director.

No consultancy related work has been carried out by the auditors during the year. The Committee was satisfied, following its review, that KPMG's objectivity and independence had not been impaired.

The Committee agreed and approved the audit fee at the June meeting following discussions between divisional management and the divisional KPMG audit teams.

The Committee's terms of reference are reviewed annually and were updated in 2004 in line with the guidance and recommendations of the revised Combined Code. The terms of reference are available on request and on the Company's website.

Remuneration Committee

The Remuneration Committee comprises the Chairman and the two independent non-executive directors, under the chairmanship of Mr C V Geoghegan, who succeeded Mr P M White on 1 January 2008.

Information about the workings of this Committee is contained in the directors' remuneration report on page 45. The Committee makes recommendations to the Board on the Company's framework of executive remuneration and determines, on its behalf, specific remuneration packages for each of the executive directors. In doing so it takes the advice of independent external consultants. The terms of reference are available on the Company's website.

Nomination Committee

The Nomination Committee presently comprises the chairman, the chief executive and the non-executive directors. It is responsible for monitoring the composition and balance of the Board, making recommendations to the Board on new Board appointments and succession planning. The Committee met twice during the year. The Committee's terms of reference are available on the Company's website.

Board and Committee meetings

Details of the number of meetings of, and attendances at, the Board, Audit, Remuneration and Nomination Committees are set out in the table below.

Name of director	Board – (12)	Audit – (3)	Remuneration – (5)	Nomination – (2)
P M White	11	2	4	1
J Dodds	12	–	–	1
C V Geoghegan	11	3	5	2
I M Lawson	12	–	–	–
D E Mattar	12	–	–	–
M O'Farrell[1]	9	–	–	–
M P Sheffield	12	–	–	–
R W Side	12	–	–	–
R W Simkin	12	–	–	–
S W Leathes	12	3	5	2
P T Warry[2]	6	–	–	–

[1] Mr O'Farrell ceased to be a director on 6 June 2008

[2] Mr Warry ceased to be a director on 31 December 2007

Internal control

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

Internal control continued

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

The key features of the Group's system of internal controls and principal controls are:

- an established management structure operating throughout the Group with clearly defined levels of responsibility and delegation of authorities;
- clearly defined operating guidelines and procedures with authorisation limits set at appropriate levels. These are set out in the Group and divisional standing orders;
- a comprehensive budgeting and forecasting system in place which is regularly reviewed and updated;
- a formal quarterly review of each division's year-end forecast, business performance, risk and internal control matters is carried out by the directors of each division with the chief executive and finance director in attendance;
- monthly management reporting including regular comparison of actual results against latest forecasts;
- established policies and procedures governing the Group's investment in land, property and other significant assets, including acquisitions and disposals. These include detailed appraisals, appropriate authorisation levels and Board approval depending on value or perceived exposure;
- investment decisions, including Private Finance Initiative (PFI) projects and tenders for contracts are subject to approval by the Board, the chief executive and finance director or divisional directors depending on the value and nature of the investment or contract. Individual tender and project review procedures are in place prior to bidding and before contract award;
- internal audits are carried out to assess the adequacy and effectiveness of internal controls. The scope of the internal audit work is planned to cover the key risks faced by the business and supplemented by cyclical reviews of the core financial process. Internal audit findings are reported to the Audit Committee and the executive directors on a regular basis;
- risk registers are in place for each business unit which highlight the key risks facing that business together with an assessment of the effectiveness of controls to mitigate those risks. The risk registers are updated regularly and at 31 March;
- an annual process of risk and control self assessment is used in the Group whereby all operating companies are required to review and confirm that appropriate internal controls are in place and operating effectively across the key risk areas identified in individual company risk registers. This assessment was carried out on 31 March 2008 and the findings reviewed by the Audit Committee;
- regular monitoring, review and reporting of safety, health and environmental matters; and
- the provision of a confidential method of reporting any suspected fraud or other misfeasance to the head of internal audit.

The Board receives regular reports from all operating units to monitor their performance and all directors are properly briefed on issues arising at Board meetings.

During the course of the year members of the Board visit all companies and monitor the control framework of each business. The Audit Committee reviews the appropriateness and effectiveness of internal controls.

Relations with shareholders

The Board uses the annual general meeting to communicate with shareholders and encourages their attendance and participation. The chairmen of the Audit Committee and the Remuneration Committee are available to answer questions from shareholders. The Group also maintains a regular dialogue with institutional investors to assist in the understanding of the Group's objectives and the Company has a programme of regular communication with investors, analysts and brokers. Presentations are made to investors, analysts and press at the time of the announcement of the final and half-year results and there are regular meetings with analysts and investors which are arranged through the Company's brokers so that the investment community can be kept informed. The Board is provided with independent feedback from analysts and institutional shareholders periodically.

The Kier website is also maintained to aid communication with investors, employees, customers, suppliers and the general public.

DIRECTORS' REMUNERATION REPORT

The Remuneration Committee
The Remuneration Committee is a Board committee consisting of independent non-executive directors and the Chairman who was considered independent upon his appointment. The following directors were members of the Committee for the year ended 30 June 2008:

Mr C V Geoghegan (chairman)
S W Leathes
P M White

Mr C V Geoghegan was appointed as chairman of the Remuneration Committee on 1 January 2008.

The secretary of the Committee is Mr M D Barton, company secretary.

The terms of reference of the Committee are available on the Group's website and on request from the company secretary. The Committee meets when necessary, but not less than once a year. The Committee consults the chief executive concerning its proposals (except in relation to his own remuneration) and takes external professional advice as appropriate. In respect of the year ended 30 June 2008 the Committee appointed Kepler Associates as its independent remuneration advisors. Kepler Associates provides no other service to the Company. Where necessary, or appropriate, the Committee instigates consultation with major institutional shareholders on remuneration matters.

Remuneration policy
The Committee makes recommendations to the Board on executive remuneration policy for adoption by the Board and determines specific remuneration packages for each of the executive directors on behalf of the Board. The Committee also monitors remuneration packages of other senior executives throughout the Group. Remuneration and benefits are set at market levels comparable with companies of similar size and scope of activity in order to be able to attract, retain and motivate high-calibre individuals. The Committee's policy is to maintain an appropriate balance between fixed elements of remuneration (basic salary, benefits in kind and pension) and performance-related elements (annual bonus and long-term incentives) and to place much greater emphasis on rewarding executives by reference to the Group's long-term performance rather than its short-term results. The remuneration received by each of the directors, together with details of share interests and pension benefits, are set out on pages 47 to 49.

Executive directors' remuneration consists of a basic salary together with an annual bonus, benefits in kind, awards under a long-term incentive plan (LTIP), and membership of a pension scheme. The remuneration components are set out below:

Basic salary
Salaries for executive directors take account of external market data and the individual's responsibilities, experience and performance. Salaries are reviewed annually.

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

Annual bonus arrangements
A bonus is paid to all executive directors at a percentage of annualised basic salary (not exceeding 35% for the year ended 30 June 2008) if Group pre-tax profit attains targets pre-set each year. These targets are agreed by the Committee; they are not published externally for reasons of commercial confidentiality.

Retirement benefits
Executive directors participate in the Kier Group Pension Scheme which has both a defined benefit section and a defined contribution plan.

Executive directors in the defined benefits section accrue pension up to the value of the lifetime allowance. Where the value of pension exceeds the lifetime allowance, future pension accrual ceases and executive directors receive a pension allowance of 20% of salary.

Only the basic salary of directors is pensionable. Details of individual directors' pension arrangements are shown in a separate table on page 47.

Long-term incentives
Under the Kier Group 1999 LTIP, approved by shareholders, directors can receive awards of shares worth up to 100% of salary per annum. Awards granted in the year to 30 June 2008 are subject to the Group achieving the following adjusted earnings per share growth targets:

- the directors will receive 100% of the award if earnings per share increase by at least 20% per annum in excess of inflation (the maximum target) over the relevant three-year performance period;
- no awards will vest unless earnings per share over the same period increase by at least 5% per annum in excess of inflation (the base target) at which point 25% of the award will vest; and
- the proportion of the awards which will vest for performance between the base target and the maximum target will be calculated on a straight-line basis.

The above targets were selected by the Committee to ensure that the Group would have to attain a substantial improvement in underlying financial performance before the awards could vest. Growth in earnings per share is the key performance measure used by the Group. The attainment of the performance targets is verified by the Remuneration Committee and reviewed by the Company's auditors.

46.7% of executive directors' remuneration for the year ended 30 June 2008 was represented by the vesting under the LTIP on the basis of the share values at the time of the vesting. This calculation includes lower levels of award for directors within three years of their appointment to the Board.

The Remuneration Committee has set a policy whereby it encourages executive directors to build up a shareholding in the Company equal to at least one year's salary over a period of up to five years.

Service contracts
The Company has service agreements with its executive directors which have a notice period of one year although there is a duty to mitigate in the event of termination. As stated in the corporate governance statement, executive directors are required to seek approval from the Board before accepting any external non-executive positions. Any emoluments arising from such positions are taken into account by the Remuneration Committee. Currently no paid external non-executive positions are held by executive directors.

Non-executive directors
The remuneration of the non-executive directors is determined by the Board and reflects the anticipated time commitment to fulfil their duties. Non-executive directors do not receive bonuses, long-term incentive awards, pension provision or compensation on termination of their appointment. The Company has agreements for services with each of the non-executive directors, all of which are terminable on no more than 12 months' notice by either party.

Total shareholder return

The following graph charts total cumulative shareholder return of the Company over the last five financial years. The index selected was the FTSE All-Share Index as the Company has been a constituent throughout the period.

The graph shows the value, by 30 June 2008, of £100 invested in Kier Group plc on 30 June 2003 compared with the value of £100 invested in the FTSE All-Share Index. The other points plotted are the values at intervening financial year-ends.

Audited information

Except for the disclosure on directors' interests the following information on pages 47 to 49 has been audited by the Company's auditors, KPMG Audit Plc.

Directors' emoluments

The value of all emoluments receivable by each director in respect of the year ended 30 June 2008 was as follows:

	Salary & fees £000	Pension supplement £000	Benefits £000	Bonus £000	**Total 2008 £000**	Total 2007 £000
P M White (chairman)	84	–	–	–	**84**	36
J Dodds[1] (chief executive)	438	88	20	113	**659**	585
P F Berry[2]	–	–	–	–	**–**	39
C V Geoghegan (non-executive)	40	–	–	–	**40**	–
I M Lawson	225	–	19	63	**307**	264
S W Leathes (non-executive)	40	–	–	–	**40**	37
D E Mattar	270	–	22	75	**367**	336
M O'Farrell[3]	224	–	15	–	**239**	220
M P Sheffield	225	–	15	63	**303**	266
R W Side[1]	294	59	12	75	**440**	404
R W Simkin	252	–	12	70	**334**	306
P T Warry[4]	60	–	–	–	**60**	114
	2,152	**147**	**115**	**459**	**2,873**	2,607

[1] The pension-related salary supplement is explained below in the pensions section.

[2] Mr P F Berry retired from the Board on 30 June 2007.

[3] Mr M O'Farrell ceased to be a director on 6 June 2008. In addition to the amount shown above a payment of £300,000 was made to him on that date, no further sums are payable.

[4] Mr P T Warry stepped down as Chairman and a director on 31 December 2007. In addition to the amount shown above a payment of £112,330 was made to him on that date, no further sums are payable.

Directors' pensions

Pension benefits earned by the directors during the year as members of the defined benefit section of the Kier Group Pension Scheme are disclosed below.

	Increase in accrued pension over the year £000	Increase in accrued pension over the year[1] £000	Transfer value of increase in accrued pension[2] £000	Accumulated total accrued pension at 30 June 2008 £000	Transfer value of accrued pension at 30 June 2007 £000	Increase in transfer value[2] £000	Transfer value of accrued pension at 30 June 2008 £000
J Dodds[3]	n/a	n/a	n/a	187	4,850	n/a	3,748
I M Lawson	9	8	111	40	287	255	542
D E Mattar	12	10	119	52	314	280	594
M P Sheffield	16	13	144	92	577	431	1,008
R W Side[4]	14	8	156	174	2,908	466	3,374
R W Simkin	13	10	187	85	1,241	421	1,662

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

All member contributions to the Scheme are payable via a salary sacrifice arrangement.

[1] The increase in a member's accrued pension over the year shown above is the adjusted figure after allowing for inflation during the year.

[2] Transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

[3] Mr J Dodds reached his normal retirement date on 21 September 2005. Any increase in his accrued benefit after this date is due to the application of an actuarial late retirement factor to compensate him for late payment of his benefits. In addition his accrued benefit was reduced during the year as a result of a pension sharing order. For the period after 21 September 2005, he currently receives a pensionable allowance of 20% of salary.

[4] At 6 April 2006, Mr R W Side elected for enhanced protection under the new Inland Revenue rules and will accrue no further pensionable service in the Scheme after this date. He receives a pensionable allowance of 20% of salary in compensation for this change.

Directors' interests

The directors of the Company at 30 June 2008 had the following beneficial interest (including interests of dependent family members) in the ordinary shares of the Company:

	30 June 2008	1 July 2007 (or date of appointment)
P M White	**2,540**	1,540
J Dodds*	**412,163**	304,561
C V Geoghegan	**5,000**	–
I M Lawson	**11,969**	6,972
S W Leathes	**10,000**	10,000
D E Mattar*	**412,163**	78,006
M P Sheffield	**27,747**	22,362
R W Side	**182,675**	172,035
R W Simkin	**304,409**	290,799

*The Listing Rules require that the interests of Mr J Dodds and Miss D E Mattar are aggregated as each is a connected person of the other by virtue of marriage. Their individual interests are: Mr J Dodds 319,715 ordinary shares (2007: 304,561) and Miss D E Mattar 92,448 ordinary shares (2007: 78,006).

In addition to the 182,675 shares above Mr R W Side has a non-beneficial interest in 6,409 ordinary shares at 30 June 2008 (1 July 2007: 6,183).

The executive directors, as potential beneficiaries of the Kier Group 1999 Employee Benefit Trust, are deemed along with all other UK employees to have an interest in 654,137 (2007: 633,653) ordinary shares with a nominal value of £6,541 (2007: £6,337) representing 1.77% of the called up share capital of the Company, held by the Trust.

At 15 September 2008 the following directors had acquired beneficial interests in further ordinary shares: Mr J Dodds, 15 shares; Mr I M Lawson, 15 shares, Miss D E Mattar, 15 shares and Mr R W Side, 15 shares. There had been no changes in the interests of the other directors since 30 June 2008.

Directors' share options

Mr J Dodds, Mr I M Lawson and Miss D E Mattar each hold 302 Sharesave scheme options granted on 25 May 2007 at an exercise price of £25 per share. Additionally Mr I M Lawson holds 137 options granted on 1 May 2008 at £14 per share, and Mr M P Sheffield 274 options also granted on 1 May 2008 at £14 per share. The Sharesave scheme options are, as for all company employees under the scheme, not subject to a performance condition. The options are exercisable between 1 July 2010 and 1 January 2012.

LTIP

Outstanding awards made to executive directors of the Company under the LTIP are in the form of a deferred right to acquire, at no cost, the following maximum number of ordinary shares in the Company:

	2006 award	2007 award	2008 award	Cumulative total 30 June 2008	Cumulative total 30 June 2007
J Dodds	24,647	21,786	22,681	69,114	80,231
I M Lawson	12,676	10,416	10,711	33,803	30,592
D E Mattar	17,605	12,731	12,853	43,189	54,477
M P Sheffield	12,676	10,416	10,711	33,803	30,592
R W Side	17,605	12,731	12,853	43,189	54,477
R W Simkin	16,549	11,805	11,996	40,350	51,422
Date of award	3 October 2005	2 October 2006	16 October 2007		
Share price	1,065p	1,836p	1,984p		
End of performance period	30 June 2008	30 June 2009	30 June 2010		

For the 2005 award which vested during the year, 25% of the award vests if earnings per share grows by at least 5% per annum in excess of inflation over the performance period, increasing on a sliding scale to 100% vesting if growth is at least 20% per annum in excess of inflation, the 2006, 2007 and 2008 awards will vest on the same basis.

Directors' interests continued

For the three-year period ended 30 June 2007 earnings per share increased by 21.69% per annum in excess of inflation. Accordingly the directors received 100% of the 2005 award (granted on 1 December 2004 when the share price was 699p) and were entitled to receive a combination of shares, at no cost, and cash. Shares vested during the year in executive directors of the Company under the 2005 award of the LTIP, together with the cash element received, were:

	2005 award number	Shares lapsed number	Shares vested number	Received as shares number	Market price pence	Received as cash £	Total LTIP award £
J Dodds	33,798	–	33,798	19,940	1,815	251,523	613,434
I M Lawson	7,500	–	7,500	4,425	1,815	55,811	136,125
D E Mattar	24,141	–	24,141	14,243	1,815	179,649	438,159
M O'Farrell	7,500	–	7,500	4,425	1,815	55,811	136,125
M P Sheffield	7,500	–	7,500	4,425	1,815	55,811	136,125
R W Side	24,141	–	24,141	14,243	1,815	179,649	438,159
R W Simkin	23,068	–	23,068	13,610	1,815	171,663	418,684
							2,316,811
						2007:	1,211,631

For the three-year period ended 30 June 2008 earnings per share increased by 17.9% per annum in excess of inflation. Accordingly the directors will receive 88.03% of the 2006 award and will be entitled to receive the number of shares set out below, at no cost, on 26 September 2008 on which income tax and national insurance will be payable.

	Number of shares
J Dodds	21,697
I M Lawson	11,159
D E Mattar	15,498
M P Sheffield	11,159
R W Side	15,498
R W Simkin	14,568

Approval of report

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

Signed on behalf of the Board

C V Geoghegan
Chairman Remuneration Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The Group financial statements are required by law and IFRS to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

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;
- 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 proper accounting records that 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 1985. 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, directors' remuneration report and 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KIER GROUP PLC

We have audited the Group and parent company financial statements (the 'financial statements') of Kier Group plc for the year ended 30 June 2008 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the Company balance sheet, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the EU (IFRS), and for preparing the parent company financial statements and the directors' remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 50.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that information presented in the operating and financial review that is cross-referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 30 June 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 June 2008;
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
London
17 September 2008

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Before exceptional items 2008 £m	Exceptional items* 2008 £m	Total 2008 £m	2007 £m
Revenue					
Group and share of joint ventures	2	**2,374.2**	**–**	**2,374.2**	2,127.9
Less share of joint ventures		**(41.8)**	**–**	**(41.8)**	(62.5)
Group revenue		**2,332.4**	**–**	**2,332.4**	2,065.4
Cost of sales		**(2,122.1)**	**(28.1)**	**(2,150.2)**	(1,874.6)
Gross profit		**210.3**	**(28.1)**	**182.2**	190.8
Administrative expenses		**(127.4)**	**(9.5)**	**(136.9)**	(115.9)
Share of post tax results of joint ventures	14	**0.9**	**(2.3)**	**(1.4)**	3.0
Profit on disposal of joint venture		**–**	**16.2**	**16.2**	–
Profit from operations	2	**83.8**	**(23.7)**	**60.1**	77.9
Finance income	5	**9.8**	**–**	**9.8**	6.9
Finance cost	5	**(6.5)**	**–**	**(6.5)**	(7.2)
Profit before tax	2	**87.1**	**(23.7)**	**63.4**	77.6
Income tax	9a	**(24.5)**	**9.3**	**(15.2)**	(21.3)
Profit for the year		**62.6**	**(14.4)**	**48.2**	56.3
Attributable to:					
Equity holders of the parent		**61.6**	**(14.4)**	**47.2**	55.5
Minority interests	12	**1.0**	**–**	**1.0**	0.8
		62.6	**(14.4)**	**48.2**	56.3
Earnings per share	11				
– basic		**170.6p**	**–**	**130.7p**	155.0p
– diluted		**169.2p**	**–**	**129.7p**	152.9p
Adjusted earnings per share (excluding the amortisation of intangible assets)	11				
– basic		**174.8p**			158.9p
– diluted		**173.4p**			156.7p

*Exceptional items relate to restructuring costs, land and work in progress write-downs and the profit on disposal of a joint venture (note 4)

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 30 JUNE 2008

	Notes	2008 £m	2007 £m
Foreign exchange translation differences		**0.7**	(0.4)
Fair value movements in cash flow hedging instruments		**(6.2)**	13.1
Actuarial (losses)/gains on defined benefit pension schemes	8	**(33.5)**	22.5
Deferred tax on items recognised directly in equity	9b	**11.2**	(12.1)
Income and expense recognised directly in equity		**(27.8)**	23.1
Profit for the year		**48.2**	56.3
Total recognised income and expense for the year	23	**20.4**	79.4
Attributable to:			
Equity holders of the parent		**19.4**	78.6
Minority interests		**1.0**	0.8
		20.4	79.4

CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2008

	Notes	2008 £m	2007 £m
Non-current assets			
Intangible assets	12	**13.4**	13.6
Property, plant and equipment	13	**92.2**	83.4
Investment in joint ventures	14	**39.9**	40.7
Retirement benefit surplus	8	**–**	6.8
Deferred tax assets	15	**13.1**	8.7
Other financial assets	26	**0.1**	0.2
Trade and other receivables	18	**17.4**	10.3
Non-current assets		**176.1**	163.7
Current assets			
Inventories	16	**516.4**	460.1
Other financial assets	26	**0.9**	0.3
Trade and other receivables	18	**361.3**	319.4
Income tax receivable		**1.9**	–
Cash and cash equivalents	19	**174.1**	178.6
Current assets		**1,054.6**	958.4
Total assets		**1,230.7**	1,122.1
Current liabilities			
Trade and other payables	20	**(914.2)**	(791.8)
Tax liabilities		**(2.6)**	(3.4)
Provisions	21	**(12.0)**	(2.4)
Current liabilities		**(928.8)**	(797.6)
Non-current liabilities			
Long-term borrowings	19	**(30.2)**	(30.2)
Trade and other payables	20	**(13.5)**	(50.0)
Retirement benefit obligations	8	**(46.7)**	(30.6)
Provisions	21	**(21.9)**	(20.2)
Deferred tax liabilities	15	**(6.5)**	(10.5)
Non-current liabilities		**(118.8)**	(141.5)
Total liabilities		**(1,047.6)**	(939.1)
Net assets	2	**183.1**	183.0
Equity			
Share capital	22	**0.4**	0.4
Share premium	23	**34.4**	27.0
Capital redemption reserve	23	**2.7**	2.7
Retained earnings	23	**142.0**	145.7
Cash flow hedge reserve	23	**2.6**	7.0
Translation reserve	23	**0.1**	(0.6)
Equity attributable to equity holders of the parent		**182.2**	182.2
Minority interests	12	**0.9**	0.8
Total equity		**183.1**	183.0

The financial statements were approved by the Board of directors on 17 September 2008 and were signed on its behalf by:

J Dodds
D E Mattar
Directors

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	Notes	2008 £m	2007 £m
Cash flows from operating activities			
Profit before tax		**63.4**	77.6
Non cash exceptional items			
Restructuring costs		**8.1**	–
Land and work in progress write-downs		**30.4**	–
Profit on disposal of joint venture		**(16.2)**	–
Other adjustments			
Share of post tax trading profits from joint ventures	14	**(0.9)**	(3.0)
Normal contributions to pension fund in excess of pension charge		**(4.6)**	(2.9)
Share-based payments charge	24	**1.0**	3.9
Amortisation of intangible assets	12	**2.1**	2.0
Depreciation charges	13	**16.4**	15.0
Profit on disposal of property, plant & equipment		**(1.0)**	(0.7)
Net finance cost	5	**(3.3)**	0.3
Operating cash flows before movements in working capital		**95.4**	92.2
Special contributions to pension fund		**(6.0)**	(11.0)
Increase in inventories		**(84.3)**	(20.1)
Increase in receivables		**(48.7)**	(54.4)
Increase in payables		**97.8**	104.9
Increase in provisions		**2.4**	3.2
Cash inflow from operating activities		**56.6**	114.8
Dividends received from joint ventures	14	**0.8**	0.6
Interest received		**9.6**	6.8
Income taxes paid		**(18.4)**	(16.9)
Net cash generated from operating activities		**48.6**	105.3
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		**2.5**	1.5
Proceeds from sale of joint venture	29b	**13.6**	–
Purchases of property, plant & equipment		**(27.5)**	(19.7)
Acquisition of subsidiaries, including net borrowings acquired	29a	**(16.5)**	(28.0)
Investment in joint ventures	14	**(2.9)**	(7.7)
Net cash used in investing activities		**(30.8)**	(53.9)
Cash flows from financing activities			
Proceeds from the issue of share capital		**–**	3.1
Purchase of own shares		**(5.5)**	(8.7)
Interest paid		**(2.3)**	(2.6)
Dividends paid to equity holders of the parent		**(13.6)**	(5.9)
Dividends paid to minority interests		**(0.9)**	–
Net cash used in financing activities		**(22.3)**	(14.1)
(Decrease)/increase in cash and cash equivalents		**(4.5)**	37.3
Opening cash and cash equivalents		**178.6**	141.3
Closing cash and cash equivalents		**174.1**	178.6
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash and cash equivalents		**(4.5)**	37.3
Increase in long-term borrowings		**–**	(0.1)
Opening net funds		**148.4**	111.2
Closing net funds		**143.9**	148.4
Net funds consist of:			
Cash and cash equivalents		**174.1**	178.6
Long-term borrowings		**(30.2)**	(30.2)
Net funds	19	**143.9**	148.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 | SIGNIFICANT ACCOUNTING POLICIES

Kier Group plc (the Company) is a company domiciled in the United Kingdom (UK). The consolidated financial statements of the Company for the year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

The consolidated financial statements were approved by the directors on 17 September 2008.

Statement of compliance

The Group's consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (GAAP). These are presented on pages 83 to 85.

Basis of preparation

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

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

The following amendments to standards or interpretations are mandatory for the first time for the financial year ended 30 June 2008 and have been adopted by the Group:

IFRIC 10 'Interim financial reporting and impairment'. This interpretation has not had any impact on the timing or recognition of impairment losses as the Group already accounted for such amounts using principles consistent with IFRIC 10.

IFRS 7 'Financial Instruments: Disclosures', and the related amendments to IAS 1 'Presentation of Financial Statements' on capital disclosures. This has resulted in additional disclosures but no impact on reported profit or net assets.

IFRIC 11 'IFRS 2 – Group and treasury share transactions'. This interpretation has not had any impact on the Group.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year ended 30 June 2008:

IAS 23 'Amendments to borrowing costs'

IAS 27R 'Consolidated and separate financial statements'

IFRS 2 'Amendments to share-based payments: vesting conditions and cancellations'

IFRS 3R 'Business combinations'

IFRS 8 'Operating segments'

IFRIC 12 'Service concession arrangements'

IFRIC 14 'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'.

The directors have considered the impact of these new standards and interpretations in future periods and no significant impact is expected. The Group has chosen not to adopt any of the above standards and interpretations early.

In respect of IFRIC 12 'Service concession arrangements' which has not yet been endorsed by the EU, the Group has continued to recognise the FRS 5 'Reporting the substance of transactions' finance debtors relating to concession arrangements held by PFI joint ventures at amortised cost as defined by IAS 39 'Financial Instruments: Recognition and Measurement.' The effect of adopting this policy is to maintain the accounting within PFI joint ventures in line with existing UK GAAP (with the exception of the treatment of interest rate derivatives under IAS 39), while ensuring that the accounting treatment complies with existing IFRS. The Group does not expect the change in accounting policy to have a significant effect when the interpretation becomes mandatory for the accounting period commencing 1 July 2008.

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 2008. 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. The purchase method is used to account for the acquisition of subsidiaries.

(b) Joint ventures

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

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

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

1 | SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Goodwill and other intangible assets

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

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

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

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

Exceptional items

Items which are significantly material by either their size or nature to require separate disclosure are reported separately in the income statement in the column headed 'Exceptional items'.

Revenue and profit recognition

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

Revenue and profit are recognised as follows:

(a) 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.

(b) 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.

(c) Construction contracts

Revenue arises from increases in valuations on contracts and includes the Group's share of revenue from joint arrangements, and goods and services provided.

Revenue is normally determined by external valuations and 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 and may not relate directly to revenue. The principal estimation technique used by the Group in attributing profit on contracts to a particular period is the preparation of forecasts on a contract by contract basis. These focus on revenues and costs to complete and enable an assessment to be made of the final out-turn on each contract. Consistent contract review procedures are in place in respect of contract forecasting.

The general principles for profit recognition are:

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

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

1 | SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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, external costs incurred from that date to the date of financial close are carried forward in the balance sheet.

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

Property, plant and equipment and depreciation

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

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

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

Leases

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

Employee benefits

(a) Retirement benefit obligations

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

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

The retirement benefit obligation represents the difference between the fair value of scheme assets and the present value of scheme liabilities. It is determined biannually by independent actuaries and recognised in full in the balance sheet. Differences between the actual and expected returns on assets and experience gains and losses arising on scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in full directly in reserves via the statement of recognised income and expense in the year. In accordance with the transitional provisions of IFRS 1 'First-time Adoption of International Financial Reporting Standards' cumulative actuarial gains and losses at 1 July 2004 were presented within the opening retained earnings reserve at that date.

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

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

(b) Share-based payments

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

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

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

Finance income and costs

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

Borrowing costs are capitalised where the Group constructs qualifying assets and has separately identifiable funding. 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.

Infrequently a long-term land creditor arises for a parcel or parcels of land where the Group has exchanged unconditional contracts, and so recognised the creditor and the land inventory, but in practice does not have title or access to the land. In these few cases the notional interest payable already charged to finance costs is then credited to finance costs and added to the cost of inventory in accordance with IAS 23 'Borrowing Costs' and IAS 2 'Inventories'. In no circumstances will the cost of such land inventory exceed the contracted sum payable.

1 | SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Taxation

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

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

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

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

Foreign currencies

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

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

In accordance with the transitional provisions of IFRS 1 the Group has elected to set the previously accumulated translation differences relating to investments in overseas subsidiary undertakings to nil at 1 July 2004.

Mining assets

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

Inventories

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

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

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

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

1 | SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

(b) Cash and cash equivalents
Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand, including bank deposits with original maturities of three months or less, net of bank overdrafts. Bank overdrafts are included within financial liabilities in current liabilities in the balance sheet.

(c) Bank and other borrowings
Interest-bearing bank and other loans are recorded at the 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 amounts receivable from joint ventures under trade and other receivables.

(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 is dependent on whether the derivative is designated as an effective hedging instrument.

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

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

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

Accounting estimates and judgements
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, relate to revenue and profit recognition and the valuation of defined pension scheme assets and liabilities.

Revenue and profit recognition
Details on the estimation techniques used for revenue and profit recognition in respect of private housing and land sales, property development and construction contracts are given on page 57.

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
- Salary and pension increases

Details of the assumptions used are included in note 8.

2 | SEGMENTAL REPORTING

For management purposes the Group is organised into five operating divisions, Construction, Support Services, Homes, Property and Infrastructure Investment. These divisions are the basis on which the Group reports its primary segmental information.

Year to 30 June 2008	Construction £m	Support Services £m	Homes £m	Property £m	Infrastructure Investment £m	Centre £m	Group £m
Revenue							
Group and share of joint ventures	**1,653.2**	**393.7**	**242.8**	**69.6**	**14.9**	**–**	**2,374.2**
Less share of joint ventures	(1.2)	–	–	(26.9)	(13.7)	–	**(41.8)**
Group revenue	1,652.0	393.7	242.8	42.7	1.2	–	**2,332.4**
Profit							
Group operating profit	38.3	13.5	30.2	9.3	(1.1)	(7.3)	**82.9**
Share of joint ventures' operating profit	–	–	0.3	2.7	1.4	–	**4.4**
Group and share of joint ventures	**38.3**	**13.5**	**30.5**	**12.0**	**0.3**	**(7.3)**	**87.3**
Share of joint ventures – finance cost	–	–	–	(1.2)	(1.2)	–	**(2.4)**
– tax	–	–	(0.1)	(1.0)	–	–	**(1.1)**
Profit from operations before exceptional items	**38.3**	**13.5**	**30.4**	**9.8**	**(0.9)**	**(7.3)**	**83.8**
Restructuring costs	–	–	(9.5)	–	–	–	**(9.5)**
Land and work in progress write-downs[1]	–	–	(26.6)	(3.8)	–	–	**(30.4)**
Profit on disposal of joint venture	–	–	–	–	16.2	–	**16.2**
Profit from operations	**38.3**	**13.5**	**(5.7)**	**6.0**	**15.3**	**(7.3)**	**60.1**
Finance income/(cost)	20.7	0.7	(17.7)	(1.9)	1.6	(0.1)	**3.3**
Profit before tax	**59.0**	**14.2**	**(23.4)**	**4.1**	**16.9**	**(7.4)**	**63.4**
Balance sheet							
Investment in joint ventures	0.1	–	–	23.6	16.2	–	**39.9**
Other assets	382.5	107.8	462.9	31.8	0.5	31.2	**1,016.7**
Total liabilities	(695.1)	(106.1)	(98.1)	(8.4)	(5.1)	(104.6)	**(1,017.4)**
Net operating assets/(liabilities)	(312.5)	1.7	364.8	47.0	11.6	(73.4)	**39.2**
Cash, net of debt	413.7	17.4	(254.0)	(27.0)	2.1	(8.3)	**143.9**
Net assets	**101.2**	**19.1**	**110.8**	**20.0**	**13.7**	**(81.7)**	**183.1**
Other information							
Inter-segmental revenue	52.6	47.5	–	0.2	–	–	**100.3**
Amortisation of intangible assets	–	2.1	–	–	–	–	**2.1**
Capital expenditure	8.8	12.4	0.6	–	–	5.6	**27.4**
Depreciation of property, plant and equipment	7.6	7.4	0.5	–	–	0.9	**16.4**

[1] Property land and work in progress write-downs are shown net of joint venture tax of £0.9m

2 | SEGMENTAL REPORTING CONTINUED

Year to 30 June 2007	Construction £m	Support Services £m	Homes £m	Property £m	Infrastructure Investment £m	Centre £m	Group £m
Revenue							
Group and share of joint ventures	1,411.2	315.5	325.1	61.3	14.8	–	2,127.9
Less share of joint ventures	–	–	–	(48.7)	(13.8)	–	(62.5)
Group revenue	1,411.2	315.5	325.1	12.6	1.0	–	2,065.4
Profit							
Group operating profit	21.9	10.2	47.4	6.9	(1.1)	(10.4)	74.9
Share of joint ventures' operating profit	–	–	0.4	5.2	1.7	–	7.3
Group and share of joint ventures	21.9	10.2	47.8	12.1	0.6	(10.4)	82.2
Share of joint ventures – finance cost	–	–	–	(1.7)	(1.2)	–	(2.9)
– tax	–	–	(0.1)	(1.1)	(0.2)	–	(1.4)
Profit from operations	21.9	10.2	47.7	9.3	(0.8)	(10.4)	77.9
Finance income/(cost)	16.2	0.3	(14.9)	(1.7)	1.5	(1.7)	(0.3)
Profit before tax	38.1	10.5	32.8	7.6	0.7	(12.1)	77.6
Balance sheet							
Investment in joint ventures	–	–	–	26.0	14.7	–	40.7
Other assets	325.2	95.0	418.8	35.9	0.6	27.3	902.8
Total liabilities	(603.0)	(96.4)	(123.3)	(4.5)	(4.8)	(76.9)	(908.9)
Net operating assets/(liabilities)	(277.8)	(1.4)	295.5	57.4	10.5	(49.6)	34.6
Cash, net of debt	361.2	15.8	(163.9)	(36.8)	(7.6)	(20.3)	148.4
Net assets	83.4	14.4	131.6	20.6	2.9	(69.9)	183.0
Other information							
Inter-segmental revenue	32.0	27.4	–	0.2	–	–	59.6
Amortisation of intangible assets	–	2.0	–	–	–	–	2.0
Capital expenditure	3.6	12.5	0.6	3.1	–	0.8	20.6
Depreciation of property, plant and equipment	6.9	6.5	0.6	–	–	1.0	15.0

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

As the Group's activities are primarily within the UK, no geographical segmental analysis is required.

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

3 | PROFIT FOR THE YEAR

Profit before taxation is stated after charging:

	2008 £m	2007 £m
Auditors remuneration:		
Fees payable to the Company's auditor for the audit of the annual accounts	**0.1**	0.1
Fees payable to the Company's auditor for other services:		
Audit of the company's subsidiaries, pursuant to legislation	**0.6**	0.6
Taxation services	**–**	0.1
Other services, pursuant to legislation	**–**	0.1
Hire of plant and machinery	**27.1**	28.0
Operating lease rentals:		
Land and buildings	**2.8**	3.2
Plant and machinery	**7.5**	7.7

4 | EXCEPTIONAL ITEMS

	2008 £m	2007 £m
Restructuring of the Homes division	**(9.5)**	–
Land and work in progress write-downs:		
Homes	**(26.6)**	–
Property – Group	**(1.5)**	–
– share of joint ventures before tax	**(3.2)**	–
	(31.3)	–
Profit on disposal of investment in joint venture	**16.2**	–
Exceptional items before tax	**(24.6)**	–
Taxation		
Share of joint ventures	**0.9**	–
Group	**9.3**	–
	10.2	–
Exceptional items after tax	**(14.4)**	–

The exceptional charge in 2008 in respect of restructuring consists principally of the costs arising from the announcement of closures of four of the five offices within the Homes division to reduce it to a single office and administration centre and the costs associated with 390 staff redundancies.

The carrying value of inventories has been written down to net realisable value as a result of a significant deterioration in market conditions.

During the year the Group sold its investment in Prospect Healthcare (Hairmyres) Group Limited for £13.8m which, when combined with a refinancing gain from August 2004, resulted in a profit on disposal of £16.2m. (See further details in note 29b).

5 | FINANCE INCOME AND COST

	2008 £m	2007 £m
Finance income		
Interest receivable	**9.8**	6.9
Finance cost		
Interest payable on bank overdrafts and loans	**(0.2)**	(0.6)
Interest payable on long-term borrowings	**(2.0)**	(2.0)
Unwinding of discount on long-term liabilities	**(4.3)**	(4.6)
	(6.5)	(7.2)

6 | INFORMATION RELATING TO EMPLOYEES

	Note	2008 No	2007 No
Average number of persons employed during the year including executive directors was:			
United Kingdom		**9,648**	8,240
Rest of world		**1,314**	1,185
		10,962	9,425
		£m	£m
Group staff costs are as follows:			
United Kingdom		**342.8**	294.9
Rest of world		**15.3**	9.6
		358.1	304.5
Wages and salaries		**312.7**	258.0
Social security costs		**29.5**	24.8
Other pension costs		**15.5**	18.4
Share-based payment plans	24	**0.4**	3.3
		358.1	304.5

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 45 to 49.

8 | RETIREMENT BENEFIT OBLIGATIONS

Kier operates a number of pension schemes for eligible employees as disclosed below:

Kier Group Pension Scheme

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

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

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 1 April 2005 using the projected unit method. The market value of the schemes' assets at that date were £369.8m which represented approximately 82% of the benefits that had accrued to members at that date, after allowing for future increases in salaries. The contributions paid during the year were £17.1m (2007: £24.0m) which include special contributions of £6.0m (2007: £11.0m).

Going forward contributions will include an allowance for funding the past service deficit identified at the 2005 valuation date not covered by the above special contributions over a ten-year period to March 2016. The Group expects to pay contributions for future service of £12.6m being 19.1% of pensionable pay plus £6.0m for funding the past service deficit in the year to June 2009.

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

Following closure of the defined benefit section of the Scheme to new entrants most new employees are offered membership of the defined contribution section of the Kier Group Pension Scheme. The Group is required to pay contributions in respect of those employees in accordance with the rates specified in their contracts of employment. The contributions paid during the year and the pension charge, amounted to £4.9m (2007: £3.9m).

Kier Sheffield LLP

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

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

Kier Sheffield LLP's pension costs in respect of the defined benefit scheme are assessed on the advice of an independent qualified actuary using the project unit method. The contributions paid during the year were £1.1m (2007: £1.6m). Going forward Kier Sheffield LLP expects to pay contributions for future service at the rate of 11.5% of pensionable pay which the funds actuary has determined is sufficient to meet ongoing benefits.

Other schemes

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

8 | RETIREMENT BENEFIT OBLIGATIONS CONTINUED

IAS 19 'Employee Benefits' disclosures

Kier has adopted immediate recognition of any actuarial gains or losses through the statement of recognised income and expense as permitted under IAS 19.

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

Kier Group Pension Scheme

	2008 %	2007 %	2006 %
Rate of general increases in salaries	**5.5**	4.7	4.3
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.9**	3.2	2.8
Discount rate	**6.7**	5.9	5.3
Inflation rate	**4.0**	3.2	2.8

The mortality assumptions adopted estimate life expectancies from age 60 for men and women of 25.6 years and 28.3 years respectively.

	Long-term rate of return expected 2008 %	Long-term rate of return expected 2007 %	Long-term rate of return expected 2006 %	**Value 2008 £m**	Value 2007 £m	Value 2006 £m
Equities	**8.5**	8.3	7.8	**349.7**	307.5	238.2
Corporate bonds	**5.5**	5.5	5.0	**100.3**	120.7	170.4
Government bonds	**5.0**	5.0	4.5	**88.4**	78.5	58.4
Total market value of assets				**538.4**	506.7	467.0
Present value of liabilities				**(584.1)**	(537.3)	(534.0)
Deficit				**(45.7)**	(30.6)	(67.0)
Related deferred tax asset				**12.8**	8.7	20.1
Net pension liability				**(32.9)**	(21.9)	(46.9)

Kier Sheffield LLP

	2008 %	2007 %	2006 %
Rate of general increases in salaries	**5.5**	4.7	4.3
Rate of increase to pensions in payment liable for Limited Price Indexation	**4.0**	3.2	2.8
Discount rate	**6.7**	5.9	5.3
Inflation rate	**4.0**	3.2	2.8

The mortality assumptions adopted estimate life expectancies from age 60 for men and women of 23.0 years and 26.0 years respectively.

	Long-term rate of return expected 2008 %	Long-term rate of return expected 2007 %	Long-term rate of return expected 2006 %	**Value 2008 £m**	Value 2007 £m	Value 2006 £m
Equities	**8.3**	8.3	7.8	**96.0**	106.6	90.2
Corporate bonds	**5.5**	5.5	5.0	**9.9**	8.4	9.3
Government bonds	**5.0**	5.0	4.5	**25.1**	21.7	19.8
Total market value of assets				**131.0**	136.7	119.3
Present value of liabilities				**(132.0)**	(124.8)	(112.5)
(Deficit)/Surplus				**(1.0)**	11.9	6.8
Restriction on pension surplus				**–**	(5.1)	–
				(1.0)	6.8	6.8
Related deferred tax asset/(liability)				**0.3**	(1.9)	(2.0)
Net pension (liability)/asset				**(0.7)**	4.9	4.8

Pension sensitivity

The assumption considered to be the most significant is the discount rate adopted. If the discount rate were to decrease by 0.1% the Kier Group Pension Scheme deficit would increase by £11.7m, and the Kier Sheffield LLP deficit would increase by £2.6m.

8 | RETIREMENT BENEFIT OBLIGATIONS CONTINUED

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

	2008 Kier Group Pension Scheme £m	**2008 Kier Sheffield LLP £m**	**2008 Total £m**	2007 Kier Group Pension Scheme £m	2007 Kier Sheffield LLP £m	2007 Total £m
(Charged)/credited to operating profit in the income statement						
Current service cost	**(12.1)**	**(2.8)**	**(14.9)**	(12.6)	(2.8)	(15.4)
Past service cost	**–**	**–**	**–**	–	(0.1)	(0.1)
Expected return on scheme assets	**35.3**	**10.4**	**45.7**	29.3	8.4	37.7
Interest cost on scheme liabilities	**(31.1)**	**(7.3)**	**(38.4)**	(28.0)	(5.9)	(33.9)
	(7.9)	**0.3**	**(7.6)**	(11.3)	(0.4)	(11.7)
Amount recognised in statement of recognised income and expense						
Actual return less expected return on assets	**1.4**	**(16.9)**	**(15.5)**	1.7	7.8	9.5
Experience gains and losses arising on liabilities	**(25.7)**	**2.6**	**(23.1)**	22.0	(3.9)	18.1
Restriction on pension surplus	**–**	**5.1**	**5.1**	–	(5.1)	(5.1)
	(24.3)	**(9.2)**	**(33.5)**	23.7	(1.2)	22.5
Changes in the fair value of scheme assets						
Fair value at 1 July	**506.7**	**136.7**	**643.4**	467.0	119.3	586.3
Expected return on scheme assets	**35.3**	**10.4**	**45.7**	29.3	8.4	37.7
Actual return less expected return on scheme assets	**1.4**	**(16.9)**	**(15.5)**	1.7	7.8	9.5
Contributions by the employer	**17.1**	**1.1**	**18.2**	24.0	1.6	25.6
Contributions by scheme participants	**0.1**	**1.1**	**1.2**	0.1	1.0	1.1
Net benefits paid out	**(22.2)**	**(1.4)**	**(23.6)**	(15.4)	(1.4)	(16.8)
Fair value at 30 June	**538.4**	**131.0**	**669.4**	506.7	136.7	643.4
Changes in the present value of the defined benefit obligation						
Fair value at 1 July	**(537.3)**	**(124.8)**	**(662.1)**	(534.0)	(112.5)	(646.5)
Current service cost	**(12.1)**	**(2.8)**	**(14.9)**	(12.6)	(2.8)	(15.4)
Past service cost	**–**	**–**	**–**	–	(0.1)	(0.1)
Interest cost on scheme liabilities	**(31.1)**	**(7.3)**	**(38.4)**	(28.0)	(5.9)	(33.9)
Experience gains and losses on scheme liabilities	**(25.7)**	**2.6**	**(23.1)**	22.0	(3.9)	18.1
Contributions by scheme participants	**(0.1)**	**(1.1)**	**(1.2)**	(0.1)	(1.0)	(1.1)
Net benefits paid out	**22.2**	**1.4**	**23.6**	15.4	1.4	16.8
Fair value at 30 June	**(584.1)**	**(132.0)**	**(716.1)**	(537.3)	(124.8)	(662.1)
Amounts included in the balance sheet						
Fair value of scheme	**538.4**	**131.0**	**669.4**	506.7	136.7	643.4
Net present value of the defined benefit obligation	**(584.1)**	**(132.0)**	**(716.1)**	(537.3)	(124.8)	(662.1)
Net (deficit)/surplus	**(45.7)**	**(1.0)**	**(46.7)**	(30.6)	11.9	(18.7)
Restriction on pension surplus	**–**	**–**	**–**	–	(5.1)	(5.1)
	(45.7)	**(1.0)**	**(46.7)**	(30.6)	6.8	(23.8)
Related deferred tax asset/(liability)	**12.8**	**0.3**	**13.1**	8.7	(1.9)	6.8
Net pension (liability)/asset	**(32.9)**	**(0.7)**	**(33.6)**	(21.9)	4.9	(17.0)

8 | RETIREMENT BENEFIT OBLIGATIONS CONTINUED

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

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	**669.4**	643.4	586.3	495.9	408.9
Net present value of the defined benefit obligation	**(716.1)**	(662.1)	(646.5)	(617.8)	(495.8)
Restriction on pension surplus	**–**	(5.1)	–	–	–
Net deficit	**(46.7)**	(23.8)	(60.2)	(121.9)	(86.9)
Related deferred tax asset	**13.1**	6.8	18.1	36.6	26.1
Net pension liability	**(33.6)**	(17.0)	(42.1)	(85.3)	(60.8)
Difference between expected and actual return on assets	**(15.5)**	9.5	27.6	41.6	15.1
Experience gains and losses on scheme liabilities	**(23.1)**	18.1	2.4	(83.1)	8.2

It is not practical to produce figures for 2004 in accordance with IAS 19. The figures included for 2004 are as originally published and calculated under UK GAAP (FRS 17 'Retirement Benefits') which it is considered would not be materially different under IAS 19.

9 | INCOME TAX

a) Recognised in the income statement

	Before exceptional items 2008 £m	Exceptional items 2008 £m	Total 2008 £m	2007 £m
Current tax expense				
UK corporation tax	**20.6**	**(5.8)**	**14.8**	16.1
Overseas tax	**0.5**	**–**	**0.5**	1.5
Adjustments for prior years	**0.4**	**–**	**0.4**	(0.5)
Total current tax	**21.5**	**(5.8)**	**15.7**	17.1
Deferred tax expense				
Origination and reversal of temporary differences	**3.8**	**(3.7)**	**0.1**	4.1
Effect of change in tax rate	**0.1**	**0.2**	**0.3**	(1.0)
Adjustments for prior years	**(0.9)**	**–**	**(0.9)**	1.1
Total deferred tax	**3.0**	**(3.5)**	**(0.5)**	4.2
Total income tax expense in the income statement	**24.5**	**(9.3)**	**15.2**	21.3
Reconciliation of effective tax rate				
Profit before tax	**87.1**	**(23.7)**	**63.4**	77.6
Add: tax on joint ventures	**1.1**	**(0.9)**	**0.2**	1.4
Underlying profit before tax	**88.2**	**(24.6)**	**63.6**	79.0
Income tax at UK corporation tax rate of 29.5% (2007: 30%)	**26.0**	**(7.3)**	**18.7**	23.7
Non-deductible expenses	**1.8**	**0.1**	**1.9**	1.7
Tax reliefs on expenses not recognised in the income statement	**(2.1)**	**–**	**(2.1)**	(2.6)
Rate change effect on deferred tax	**0.1**	**0.2**	**0.3**	(1.0)
Profits attributable to minority interest not taxable	**(0.3)**	**–**	**(0.3)**	(0.2)
Effect of tax rates in foreign jurisdictions	**0.2**	**–**	**0.2**	0.3
Profit on disposal of joint venture taxed in a previous period	**–**	**(2.4)**	**(2.4)**	–
Capital gains not taxed	**–**	**(0.8)**	**(0.8)**	–
(Over)/under provision in respect of prior years	**(0.1)**	**–**	**(0.1)**	0.8
Total tax (including joint ventures)	**25.6**	**(10.2)**	**15.4**	22.7
Tax on joint ventures	**(1.1)**	**0.9**	**(0.2)**	(1.4)
Group income tax expense	**24.5**	**(9.3)**	**15.2**	21.3

9 | INCOME TAX CONTINUED

b) Recognised in the statement of recognised income and expense

	2008 £m	2007 £m
Deferred tax expense		
Fair value movements on cash flow hedging instruments:		
Group	**0.2**	(0.2)
Joint ventures	**(2.0)**	3.9
Actuarial (losses)/gains on defined benefit pension schemes	**(9.4)**	8.4
Total income tax (credit)/expense in the statement of recognised income and expense	**(11.2)**	12.1

c) Tax losses

At the balance sheet date the Group has unused tax losses of £8.0m (2007: £10.6m) available for offset against future profits. This is made up of £4.4m (2007: £6.8m) of income losses and £3.6m (2007: £3.8m) of capital losses. A deferred tax asset has been recognised in respect of £0.1m (2007: £2.9m) of income losses. No deferred tax asset has been recognised in respect of the remaining losses, due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

10 | DIVIDENDS

Amounts recognised as distributions to equity holders in the year.

	2008 £m	2007 £m
Final dividend for the year ended 30 June 2007 of 40.4 pence (2006: 17.8 pence)	**14.5**	6.3
Interim dividend for the year ended 30 June 2008 of 18.0 pence (2007: 9.6 pence)	**6.5**	3.5
	21.0	9.8

The proposed final dividend of 37.0 pence (2007: 40.4 pence) bringing the total dividend for the year to 55.0 pence (2007: 50.0 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £13.5m will be paid on 28 November 2008 to shareholders on the register at the close of business on 26 September 2008. A scrip dividend alternative will be offered.

11 | EARNINGS PER SHARE

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

	2008 Basic £m	2008 Diluted £m	2007 Basic £m	2007 Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**47.2**	**47.2**	55.5	55.5
Add: restructuring costs	**9.5**	**9.5**	–	–
Less: tax thereon	**(2.8)**	**(2.8)**	–	–
Add: land and work in progress write-downs	**30.4**	**30.4**	–	–
Less: tax thereon	**(8.1)**	**(8.1)**	–	–
Less: profit on the disposal of joint venture	**(16.2)**	**(16.2)**	–	–
Add: tax thereon	**1.6**	**1.6**	–	–
Underlying earnings	**61.6**	**61.6**	55.5	55.5
Add: amortisation of intangible assets	**2.1**	**2.1**	2.0	2.0
Less: tax on amortisation of intangible assets	**(0.6)**	**(0.6)**	(0.6)	(0.6)
Adjusted earnings	**63.1**	**63.1**	56.9	56.9
	million	**million**	million	million
Weighted average number of shares	**36.1**	**36.1**	35.8	35.8
Weighted average impact of LTIP	**–**	**0.3**	–	0.5
Weighted average number of shares used for earnings per share	**36.1**	**36.4**	35.8	36.3
	pence	**pence**	pence	pence
Earnings per share	**130.7**	**129.7**	155.0	152.9
Underlying earnings per share (excluding exceptional items)	**170.6**	**169.2**	155.0	152.9
Adjusted earnings per share (excluding exceptional items and the amortisation of intangible assets)	**174.8**	**173.4**	158.9	156.7

12 | INTANGIBLE ASSETS

	Goodwill £m	Contract rights £m	Total £m
Cost			
At 1 July 2007	5.2	16.6	21.8
Additions	–	1.9	1.9
At 30 June 2008	**5.2**	**18.5**	**23.7**
Amortisation			
At 1 July 2007	–	8.2	8.2
Charge for the year	–	2.1	2.1
At 30 June 2008	**–**	**10.3**	**10.3**
Net book value			
At 30 June 2008	**5.2**	**8.2**	**13.4**
At 30 June 2007	5.2	8.4	13.6
Cost			
At 1 July 2006	5.2	15.8	21.0
Additions	–	0.8	0.8
At 30 June 2007	5.2	16.6	21.8
Amortisation			
At 1 July 2006	–	6.2	6.2
Charge for the year	–	2.0	2.0
At 30 June 2007	–	8.2	8.2
Net book value			
At 30 June 2007	5.2	8.4	13.6
At 30 June 2006	5.2	9.6	14.8

Goodwill relates to the acquisition of Kier Partnership Homes Limited in 2002. This balance has been subject to an annual impairment review but continues to be maintained at the 30 June 2004 carrying value.

Contract rights relate to the acquisition by the Group of the business and assets of the construction and building services operations of Sheffield City Council (£15.8m), Harlow Council (£0.8m) and Stoke-on-Trent City Council (£1.9m). These are being amortised on a straight-line basis over the remaining lives of the contracts. These contracts are in partnership with the respective councils who have retained a participatory ownership interest and the rights for a minority share of the profits. These profit shares are reflected in the income statement as attributable to minority interests.
The amounts for the year to June 2008 are, Sheffield City Council £0.9m (2007: £0.8m), Harlow Council £0.1m (2007: £nil) and Stoke-on-Trent City Council £nil.

13 | PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant, vehicles & fixtures £m	Mining assets £m	Total £m
Cost				
At 1 July 2007	38.0	88.9	19.1	146.0
Additions	5.5	21.9	–	27.4
Changes in estimates	–	–	(0.5)	(0.5)
Disposals	(0.3)	(7.0)	–	(7.3)
At 30 June 2008	**43.2**	**103.8**	**18.6**	**165.6**
Accumulated depreciation				
At 1 July 2007	1.9	49.7	11.0	62.6
Charge for the year	0.1	11.6	4.7	16.4
Disposals	–	(5.6)	–	(5.6)
At 30 June 2008	**2.0**	**55.7**	**15.7**	**73.4**
Net book value				
At 30 June 2008	**41.2**	**48.1**	**2.9**	**92.2**
At 30 June 2007	36.1	39.2	8.1	83.4
Cost				
At 1 July 2006	34.1	78.5	19.1	131.7
Additions	3.9	16.7	–	20.6
Acquired on acquisitions	–	0.2	–	0.2
Disposals	–	(6.1)	–	(6.1)
Currency realignments	–	(0.4)	–	(0.4)
At 30 June 2007	38.0	88.9	19.1	146.0
Accumulated depreciation				
At 1 July 2006	1.3	44.7	7.2	53.2
Charge for the year	0.6	10.6	3.8	15.0
Disposals	–	(5.3)	–	(5.3)
Currency realignment	–	(0.3)	–	(0.3)
At 30 June 2007	1.9	49.7	11.0	62.6
Net book value				
At 30 June 2007	36.1	39.2	8.1	83.4
At 30 June 2006	32.8	33.8	11.9	78.5

14 | INVESTMENT IN JOINT VENTURES

a) Movements in year

	2008 £m	2007 £m
Investment in joint ventures		
At 1 July	**40.7**	20.8
Additions	**3.2**	7.9
Loan repayments	**(0.3)**	(0.2)
Disposals	**(5.0)**	–
Release of deferred refinancing gain	**8.2**	–
Share of trading profit after taxation	**0.9**	3.0
Share of land and work in progress write-downs after taxation	**(2.3)**	–
Net (expense)/income recognised directly in equity	**(6.7)**	13.7
Deferred tax on items recognised directly in equity	**2.0**	(3.9)
Dividends received	**(0.8)**	(0.6)
At 30 June	**39.9**	40.7

b) Analysis of investment

	2008 Kier Developments Limited £m	**2008 Other joint ventures £m**	**2008 Total £m**	2007 Total £m
Investment in joint ventures				
Property, plant and equipment	**10.9**	**–**	**10.9**	6.7
Deferred tax assets	**0.7**	**1.2**	**1.9**	0.4
Other financial assets	**0.2**	**5.2**	**5.4**	9.5
Current assets	**61.7**	**205.0**	**266.7**	292.1
Gross assets	**73.5**	**211.4**	**284.9**	308.7
Payables – current	**(1.4)**	**(10.8)**	**(12.2)**	(20.7)
Payables – non-current	**(67.9)**	**(198.7)**	**(266.6)**	(282.6)
Net external assets	**4.2**	**1.9**	**6.1**	5.4
Loans provided to joint ventures	**20.3**	**13.5**	**33.8**	35.3
Total investment in joint ventures	**24.5**	**15.4**	**39.9**	40.7

The liabilities of the joint ventures are without recourse to the Group. Details of the Group's interest in joint ventures are given on page 87.

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.

	Property plant and equipment £m	Short-term temporary differences £m	Retirement benefit obligations £m	Tax losses £m	Total £m
At 1 July 2006	(3.0)	2.8	18.1	1.0	18.9
Acquired on acquisition	(0.1)	(10.9)	–	–	(11.0)
Charge to income	0.3	(1.4)	(2.9)	(0.2)	(4.2)
Charge direct to recognised income and expense	–	0.2	(8.4)	–	(8.2)
Share-based payments credited to equity	–	2.7	–	–	2.7
At 30 June 2007	(2.8)	(6.6)	6.8	0.8	(1.8)
Charge to income	(0.1)	4.5	(3.1)	(0.8)	0.5
Charge direct to recognised income and expense	–	(0.2)	9.4	–	9.2
Share-based payments credited to equity	–	(1.3)	–	–	(1.3)
At 30 June 2008	**(2.9)**	**(3.6)**	**13.1**	**–**	**6.6**

Deferred tax assets and liabilities are attributed to temporary differences relating to the following:

	Assets 2008 £m	Assets 2007 £m	**Liabilities 2008 £m**	Liabilities 2007 £m	**Net 2008 £m**	Net 2007 £m
Property, plant and equipment	**1.8**	1.5	**(4.7)**	(4.3)	**(2.9)**	(2.8)
Inventories	**3.0**	2.9	**(7.5)**	(10.1)	**(4.5)**	(7.2)
Payables	**7.2**	4.4	**(7.2)**	(7.6)	**–**	(3.2)
Financial instruments	**–**	–	**(0.3)**	(0.1)	**(0.3)**	(0.1)
Retirement benefit obligations	**13.1**	8.7	**–**	(1.9)	**13.1**	6.8
Share-based payments	**1.5**	3.9	**(0.3)**	–	**1.2**	3.9
Tax losses	**–**	0.8	**–**	–	**–**	0.8
Total	**26.6**	22.2	**(20.0)**	(24.0)	**6.6**	(1.8)
Set-off tax	**(13.5)**	(13.5)	**13.5**	13.5	**–**	–
Net tax assets/(liabilities)	**13.1**	8.7	**(6.5)**	(10.5)	**6.6**	(1.8)

16 | INVENTORIES

	2008 £m	2007 £m
Raw materials and consumables	**3.3**	2.3
Construction contracts in progress	**43.6**	27.9
Land and work in progress held for development	**462.5**	416.0
Other work in progress	**7.0**	13.9
	516.4	460.1

Land and work in progress held for development at 30 June 2008 is shown after provisions of £28.1m to reduce the values on certain sites to net realisable value (£26.6m residential and £1.5m commercial property).

17 | CONSTRUCTION CONTRACTS

Contracts in progress at the balance sheet date comprise contract costs incurred plus recognised profits less losses of £6,027.4m (2007: £6,208.1m), less progress billings received and receivable of £6,147.3m (2007: £6,323.2m).

The net balance is analysed into assets and liabilities as follows:

	2008 £m	2007 £m
Inventories	**43.6**	27.9
Trade and other payables	**(163.5)**	(143.0)
	(119.9)	(115.1)

18 | TRADE AND OTHER RECEIVABLES

	2008 £m	2007 £m
Current:		
Trade receivables	**272.7**	231.9
Construction contract retentions	**45.7**	38.0
Amounts receivable from joint ventures	**2.2**	16.7
Other receivables	**18.0**	18.7
Prepayments and accrued income	**22.7**	14.1
	361.3	319.4
Non-current:		
Construction contract retentions	**16.7**	9.9
Other receivables	**0.7**	0.4
	17.4	10.3

19 | CASH, CASH EQUIVALENTS AND BORROWINGS

This note provides information about the contractual terms of the Group's bank balances, interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 26.

	2008 £m	2007 £m
Bank balances and cash in hand	**130.6**	163.3
Bank deposits with a maturity of less than three months	**43.5**	15.3
Cash and cash equivalents	**174.1**	178.6
Long-term borrowings	**(30.2)**	(30.2)
Net funds in the statement of cash flows	**143.9**	148.4

Long-term borrowings comprise a ten-year private placement of loan notes made in February 2003. The borrowings are unsecured and fixed at an interest rate of 6.4% per annum for ten years. Further information on these borrowings are detailed in note 26.

Cash and cash equivalents includes £13.6m (2007: £17.7m) being the Group's share of cash and cash equivalents held by joint arrangements and £31.3m (2007: £26.6m) of cash not readily available to the Group.

20 | TRADE AND OTHER PAYABLES

	2008 £m	2007 £m
Current:		
Payments received on account	**16.6**	3.9
Trade payables	**594.2**	521.0
Construction contract balances	**163.5**	143.0
Other taxation and social security costs	**24.3**	21.3
Other payables	**22.8**	24.9
Accruals and deferred income	**92.8**	77.7
	914.2	791.8

	2008 £m	2007 £m
Non-current:		
Trade payables	**10.0**	46.7
Accruals and deferred income	**3.5**	3.3
	13.5	50.0

21 | PROVISIONS

	Restoration of mining sites £m	Other provisions £m	Total £m
At 1 July 2007	5.2	17.4	22.6
Utilised	(0.7)	(9.0)	(9.7)
Unwinding of discount	0.8	–	0.8
Additions	–	20.2	20.2
At 30 June 2008	**5.3**	**28.6**	**33.9**

Future outflows in respect of the restoration of mining sites are expected to occur over the next five years.

Other provisions include £8.1m (2007: nil) for the restructuring of the of the Homes division. Outflows are expected to occur within the next year.

Other provisions include £13.7m (2007: £14.0m) held in the Group's captive insurance company. Due to the nature of the liabilities, the timing of any potential future outflows is uncertain.

It is anticipated that the amounts provided will be utilised as follows:

	2008 £m	2007 £m
Due within one year	**12.0**	2.4
Due after one year	**21.9**	20.2
	33.9	22.6

22 | SHARE CAPITAL

The share capital of the Company comprises:

	2008 Number	2008 £m	2007 Number	2007 £m
Ordinary shares of 1p each authorised	**45,000,000**	**0.5**	45,000,000	0.5
Issued and fully paid	**37,021,070**	**0.4**	36,572,105	0.4

During the year 448,965 ordinary shares were issued at a total premium of £7,349,000, of which 447,195 were issued as a scrip dividend alternative at a premium of £7,338,000 and 1,770 were issued under the Sharesave Scheme at a premium of £11,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

23 | RECONCILIATION OF MOVEMENT IN RESERVES AND CHANGES IN TOTAL EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Attributable to equity holders of the parent £m	Minority interests £m	Total equity £m
At 30 June 2006	0.4	20.0	2.7	88.0	(2.4)	(0.2)	108.5	–	108.5
Total recognised income and expense	–	–	–	69.6	9.4	(0.4)	78.6	0.8	79.4
Dividends paid	–	–	–	(9.8)	–	–	(9.8)	–	(9.8)
Issue of own shares	–	7.0	–	–	–	–	7.0	–	7.0
Purchase of own shares	–	–	–	(8.7)	–	–	(8.7)	–	(8.7)
Share-based payments charge	–	–	–	3.9	–	–	3.9	–	3.9
Tax on share-based payments	–	–	–	2.7	–	–	2.7	–	2.7
At 30 June 2007	0.4	27.0	2.7	145.7	7.0	(0.6)	182.2	0.8	183.0
Total recognised income and expense	–	–	–	23.1	(4.4)	0.7	19.4	1.0	20.4
Dividends paid	–	–	–	(21.0)	–	–	(21.0)	(0.9)	(21.9)
Issue of own shares	–	7.4	–	–	–	–	7.4	–	7.4
Purchase of own shares	–	–	–	(5.5)	–	–	(5.5)	–	(5.5)
Share-based payments charge	–	–	–	1.0	–	–	1.0	–	1.0
Tax on share-based payments	–	–	–	(1.3)	–	–	(1.3)	–	(1.3)
At 30 June 2008	**0.4**	**34.4**	**2.7**	**142.0**	**2.6**	**0.1**	**182.2**	**0.9**	**183.1**

Cash flow hedge reserve

This reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred, together with any related deferred taxation.

Translation reserve

This reserve comprises the cumulative difference on exchange arising from the retranslation of net investments in overseas subsidiary undertakings. In accordance with the transitional provisions of IFRS 1 this reserve was set to nil at 1 July 2004.

24 | SHARE-BASED PAYMENTS

Options and awards over the Company's ordinary shares at 30 June 2008 were as follows:

	Sharesave Scheme	Sharesave Scheme	LTIP 2006 award	LTIP 2007 award	LTIP 2008 award	Total
Date of grant	25 May 2007	1 May 2008	3 October 2005	2 October 2006	16 October 2007	
Awards outstanding at 30 June 2007						
– directors	906	411	101,758	79,885	81,805	**264,765**
– employees	155,710	314,685	148,805	100,172	136,585	**855,957**
	156,616	315,096	250,563	180,057	218,390	**1,120,722**

Sharesave Scheme

Options were granted on 1 May 2008 at an exercise price of 1,400p, these are exercisable at the holders' discretion from 1 July 2011 until 1 January 2012.

LTIP

Awards made under the scheme are normally able to vest following the third anniversary of the date of the grant. Vesting may be in full or in part (with the balance of the award lapsing), and is subject to the Group achieving specific performance targets.

The awards which are taken as shares are intended to be satisfied from the following shares held by the Kier Group 1999 Employee Benefit Trust rather than from the issue of new shares. These shares are accounted for as a deduction from retained earnings.

	2008 Number of shares	**2008 £m**	2007 Number of shares	2007 £m
At 1 July	**633,653**	**11.3**	355,167	3.1
Acquired during the year	**313,713**	**5.5**	370,000	8.7
Issued in satisfaction of awards	**(293,229)**	**(3.2)**	(91,514)	(0.5)
At 30 June	**654,137**	**13.6**	633,653	11.3

The market value of these shares at 30 June 2008 was £6.2m. The dividends on these shares have been waived.

A description of the scheme and its terms and conditions is included in the directors' remuneration report on page 45.

Value of share schemes

The fair value per option granted has been calculated using the Black-Scholes model using the following assumptions:

	Sharesave Scheme	Sharesave Scheme	LTIP 2006 award	LTIP 2007 award	LTIP 2008 award
Date of grant	25 May 2007	1 May 2008	3 October 2005	2 October 2006	16 October 2007
Share price at grant	2,254.0p	1,166.0p	1,065.0p	1,836.0p	1,984.0p
Exercise price	2,500.0p	1,400.0p	nil	nil	nil
Option life	3 years	3 years	3 years	3 years	3 years
Expected volatility	26.4%	34.7%	N/A	N/A	N/A
Dividend yield	1.2%	5.0%	2.0%	1.4%	2.5%
Risk-free interest rate	5.7%	4.4%	N/A	N/A	N/A
Value per option	445.0p	173.0p	1043.0p	1756.0p	1,840.0p

The value per option represents the fair value of the option less the consideration payable.

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.

24 | SHARE-BASED PAYMENTS CONTINUED

Value of share schemes continued

The total charge for the year relating to share-based payment plans was:

	2008 £m	2007 £m
Equity-settled	**1.0**	3.9
Cash-settled including employer's national insurance	**(0.6)**	(0.6)
Total expense recognised as employee costs	**0.4**	3.3

Included in the other payables is an amount of £0.4m (2007: £1.6m) relating to provisions for employer's national insurance and cash settled share-based payments.

A reconciliation of option movements is shown below:

	Number of options 2008	**Weighted average exercise price 2008**	Number of options 2007	Weighted average exercise price 2007
Outstanding at 1 July	**1,082,361**	**704.5p**	1,326,713	239.6p
Forfeited	**(206,155)**	**1814.9p**	(164,318)	83.9p
Exercised	**(291,744)**	**2.5p**	(578,684)	526.2p
Granted	**536,260**	**829.9**	498,650	1530.1p
Outstanding at 30 June	**1,120,722**	**743.0p**	1,082,361	704.5p
Exercisable at 30 June	**–**	**–**	–	–

25 | GUARANTEES AND CONTINGENT LIABILITIES

There are contingent liabilities in respect of performance bonds, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures, entered into in the normal course of business. The Office of Fair Trading has named Kier Regional Limited as one of the 112 construction companies in its Statement of Objections (SO) in connection with its investigation into alleged infringements of UK Competition Law in the sector. Kier has responded to the SO but it is not possible to predict the effect of the Office of Fair Trading's investigation on the Group's financial position or results of operations.

26 | FINANCIAL INSTRUMENTS

Financial risk management

Financial risk management is an integral part of the way the Group is managed. In the course of its business, the Group is exposed primarily to credit risk, market risk and liquidity risk. The overall aim of the Group's financial risk management policies is to minimise potential adverse effects on financial performance and net assets.

The Group's treasury department manages the principal financial risks within policies and operating parameters approved by the Board. Treasury is not a profit centre and does not enter into speculative transactions. Derivative financial instruments are used to hedge exposure to fluctuations in interest and exchange rates.

26 | FINANCIAL INSTRUMENTS CONTINUED

Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and interest rate and currency hedges.

Policies and procedures exist to ensure that customers have an appropriate credit history.

Short-term bank deposits and hedging transactions are executed only with highly credit-rated authorised counterparties based on ratings issued by the major ratings agencies. Counterparty exposure positions are monitored regularly so that credit exposures to any one counter party 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:

	2008 £m	2007 £m
Provision as at 1 July	**2.1**	2.4
Increase in provision during the year	**0.2**	–
Provision utilised during the year	**–**	–
Provision released during the year	**(0.7)**	(0.3)
Provision as at 30 June	**1.6**	2.1

There are £63.7m of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £41.3m had been received by the end of August 2008. There are no indications as at 30 June 2008 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 2008 that were overdue for payment was 23%. Credit terms vary across the Group; the average age of trade receivables was as follows:

Construction	48 days (2007: 43 days)
Support Services	38 days (2007: 34 days)

Overall, the Group considers that it is not exposed to a significant amount of credit risk.

Market risk

Interest rate risk

The Group has hedged its exposure to interest rate movements through a private placement of £30.2m of loan notes for ten years from February 2003, which bear interest on a fixed rate basis at 6.4% p.a. The balance of the Group's borrowings are to finance short-term working capital requirements. Such borrowings are subject to floating rates of interest linked to LIBOR.

In addition, a number of the Group's PFI and Property joint ventures have entered into interest rate swaps.

Foreign currency risk

The Group operates primarily within the UK such that its exposure to currency risk is not considered to be significant.

Where foreign currency exposures are identified these are hedged using forward foreign exchange contracts.

Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund ongoing operations without the need to carry significant net debt over the medium-term. The Group's principal borrowing facilities are provided by a group of core relationship banks in the form of unsecured committed borrowing facilities. The quantum of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels.

26 | FINANCIAL INSTRUMENTS CONTINUED

Derivative financial instruments

At 30 June 2008	Current assets £m	Non-current assets £m	Total assets £m	Total liabilities £m
Fuel price forward contracts	**0.9**	**0.1**	**1.0**	**–**

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 2008 the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £156.4m. The Group's share of the total net fair value asset of these interest rate derivatives at 30 June 2008 amounted to £2.3m which, together with the related deferred tax liability of £0.6m, have met the criteria for hedge accounting and as a result have been recognised directly in equity.

Financial assets and liabilities – analysis by currency and maturity dates

At 30 June 2008 the Group had cash, overdrafts and long-term borrowings denominated in the following currencies:

	2008 Financial assets £m	2008 Financial liabilities £m	2008 Aggregate £m	2007 Financial assets £m	2007 Financial liabilities £m	2007 Aggregate £m
Currency:						
Sterling	**162.2**	**(16.8)**	**145.4**	166.3	(16.8)	149.5
US dollar	**2.8**	**(13.4)**	**(10.6)**	1.2	(13.4)	(12.2)
Euro	**2.3**	**–**	**2.3**	9.4	–	9.4
Other	**6.8**	**–**	**6.8**	1.7	–	1.7
Total	**174.1**	**(30.2)**	**143.9**	178.6	(30.2)	148.4

There is no material difference between the carrying value and fair value of the Group's aggregate financial assets and liabilities.

The financial liabilities represent a £17.0m UK sterling loan and a £13.4m US dollar loan, net of £0.2m of capitalised finance costs, from the private placement of loan notes made in February 2003. The loans are repayable in one payment in February 2013. The UK sterling loan is at a fixed interest rate of 6.4% for the term of the loan. The Group has entered into interest payment and repayment swaps for the US dollar loan, which give an effective 6.4% fixed interest rate for the term of the loan.

The remaining financial assets and liabilities are cash, short-term deposits and overdrafts at floating rates based on LIBOR.

Borrowing facilities

The Group has £102.5m (2007: £107.5m) of unsecured committed borrowing facilities due for renewal as follows:

	Undrawn facility £m
2009	10.0
2011	92.5
	102.5

In addition the Group has £12.5m (2007: £12.5m) of unsecured overdraft facilities repayable on demand.

27 | FINANCIAL AND CAPITAL COMMITMENTS

	2008 £m	2007 £m
Commitments for capital expenditure in subsidiaries	**2.9**	3.4
Commitments for equity and subordinate debt in PFI joint ventures	**4.3**	7.3
	7.2	10.7

Non-cancellable operating lease rentals are payable as follows:

	2008		2007	
	Property £m	Plant & machinery £m	Property £m	Plant & machinery £m
Within one year	**0.6**	**2.3**	0.4	2.3
Between one and five years	**6.9**	**21.8**	5.5	19.6
Over five years	**7.1**	**0.2**	11.3	–
	14.6	**24.3**	17.2	21.9

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period of 99 years. Vehicle leases typically run for a period of four years. None of the leases includes contingent rentals.

28 | RELATED PARTIES

Identity of related parties

The Group has a related party relationship with its joint arrangements, joint ventures and key management personnel.

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 45 to 49. During the year ended 30 June 2007 Miss D E Mattar acquired services including project management and engineering design advice from Group companies amounting to £29,828 (including VAT). These services were employed on an arm's length basis and have been paid for in full. Other than disclosed in the directors' remuneration report, there were no other transactions with key management personnel in either the current or preceding year.

Sales of goods to joint arrangements and joint ventures:

	2008 £m	2007 £m
Construction services and materials	**67.9**	86.2
Staff and associated costs	**11.1**	12.4
Management services	**1.2**	2.4
	80.2	101.0

Amounts due from joint ventures are analysed below:

	2008 £m	2007 £m
Academy Services (Norwich) Limited	**0.5**	–
Academy Services (Oldham) Limited	**0.3**	4.4
Academy Services (Sheffield) Limited	**2.5**	2.6
Academy Services (Tendering) Limited	**0.8**	0.7
Academy Services (Waltham Forest) Limited	**2.9**	3.3
ASK (Greenwich) Limited	**0.8**	0.8
Information Resources (Bournemouth) Limited	**0.8**	0.8
Information Resources (Oldham) Limited	**1.0**	1.0
Justice Support Services (North Kent) Limited	**1.7**	–
Prospect Healthcare (Hairmyres) Limited	**–**	4.5
Prospect Healthcare (Hinchingbrooke) Limited	**1.2**	1.2
Prospect Healthcare (Ipswich) Limited	**1.5**	7.1
Prospect Healthcare (Reading) Limited	**1.7**	1.7
Kier Developments Limited	**20.3**	23.9
	36.0	52.0

29 | ACQUISITIONS AND DISPOSALS

a) Summary of acquisitions

	2008 £m	2007 £m
Construction and building services operations of:		
Sheffield City Council	**1.4**	1.4
Stoke on Trent City Council	**2.0**	–
Harlow Council	**–**	1.0
Hugh Bourn Developments (Wragby) Limited:		
Consideration paid	**13.1**	24.0
Net borrowings on acquisition	**–**	1.6
Total	**16.5**	28.0

Acquisition of the business and assets of the construction and building services operation of Sheffield City Council

On 31 March 2003 the Group, through its subsidiary Kier Sheffield LLP, acquired the business and assets of the construction and building services operation of Sheffield City Council. The consideration, payable wholly in cash, was £16.7m representing the value of the net assets acquired.

The consideration is payable as follows:

	£m
Total consideration payable	16.7
Paid at 30 June 2007	(15.6)
Paid during the year ended 30 June 2008	(1.4)
Unwinding of discount	1.5
Deferred at 30 June 2008 (due on 1 April 2009)	1.2

Acquisition of the business and assets of the building services operation of Stoke-on-Trent City Council

On 4 February 2008 the Group, through its subsidiary Kier Stoke Limited, acquired the business and assets of the building services operation of Stoke on Trent City Council. The consideration, payable wholly in cash, was £2.0m representing the value of the net assets acquired (intangible assets £1.9m and inventory £0.1m).

Acquisition of Hugh Bourn Developments (Wragby) Limited.

On 31 July 2006 the Group acquired the entire share capital of Hugh Bourn Developments (Wragby) Limited. The consideration, payable wholly in cash, was £46.8m representing the value of the net assets acquired.

The consideration is payable as follows:

	£m
Total consideration payable	46.8
Paid at 30 June 2007	(24.0)
Paid during the year ended 30 June 2008	(13.1)
Unwinding of discount	3.4
Deferred at 30 June 2008 (due on 1 July 2008)	13.1

b) Disposal of investment in joint venture

During the year the Group sold its investment in Prospect Healthcare (Hairmyres) Group Limited. The disposal proceeds can be reconciled to the profit on disposal as follows:

	£m
Gross sales proceeds	13.8
Sale costs paid during the year ended 30 June 2008	(0.2)
Net sale proceeds	13.6
Book value of net assets and loans of joint venture	(5.0)
Release of deferred refinancing gain	8.2
Loan interest receivable included in gross proceeds	(0.2)
Sale costs payable after 30 June 2008	(0.4)
Profit on disposal	16.2

COMPANY BALANCE SHEET
AT 30 JUNE 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Investment in subsidiary undertakings	5	**105.3**	105.3
Current assets			
Debtors	6	**6.3**	6.9
Cash at bank and in hand		**200.5**	197.2
		206.8	204.1
Current liabilities			
Creditors – amounts falling due within one year	7	**(237.5)**	(233.9)
Net current liabilities		**(30.7)**	(29.8)
Total assets less current liabilities		**74.6**	75.5
Creditors – amounts falling due after more than one year	7	**(30.2)**	(30.2)
Net assets		**44.4**	45.3
Capital and reserves			
Called up share capital	8	**0.4**	0.4
Share premium account	9	**34.4**	27.0
Merger relief reserve	9	**1.2**	1.2
Capital redemption reserve	9	**2.7**	2.7
Share scheme reserve	9	**(11.8)**	(8.6)
Profit and loss account	9	**17.5**	22.6
Shareholders' funds	10	**44.4**	45.3

The financial statements were approved by the Board of directors on 17 September 2008 and were signed on its behalf by:

J Dodds
D E Mattar
Directors

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 | ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material.

Basis of preparation
The financial statements have been prepared under the historical cost convention and in accordance with UK GAAP.

A cash flow statement has not been presented as permitted by FRS 1 (revised) 'Cash flow statements'.

Fixed asset investments
Investments in subsidiary undertakings are included in the balance sheet at cost less any provision for diminution in value.

Deferred taxation
In accordance with FRS 19 'Deferred tax', deferred taxation is provided fully and on a non-discounted basis at expected future corporation tax rates in respect of timing differences between profits computed for taxation and accounts purposes.

Own shares
The cost of the Company's investment in its own shares which comprise shares held by the Kier Group 1999 Employee Benefit Trust for the purpose of funding of the Company's share option plans, is shown as a reduction in shareholders' funds in retained earnings.

Share-based payments
The Company issues equity-settled share-based payments under the Sharesave and LTIP schemes. The fair value of these schemes at the date of grant is expressed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest.

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 26 under IFRS 7 which comply with FRS 29 'Financial Instruments and Disclosures'. Consequently the Company has taken advantage of certain exemptions in FRS 29 from the requirement to present separate financial instrument disclosures for the Company.

2 | PROFIT FOR THE YEAR

As permitted by section 230 of the Companies Act 1985, the Company has elected not to present its own profit and loss account for the year.

The auditors' remuneration for audit services to the Company was £4,835 (2007: £4,650). No other services were provided to the Company.

3 | INFORMATION RELATING TO DIRECTORS AND EMPLOYEES

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 45 to 49. The Company has no other employees other than the directors.

4 | DIVIDENDS

Details of the dividends paid by the Company are included in note 10 of the consolidated financial statements.

5 | FIXED ASSETS – INVESTMENTS

	£m
Cost at 1 July 2007 and 30 June 2008	**105.3**

6 | DEBTORS

	2008 £m	2007 £m
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**0.1**	–
Other debtors	**5.5**	3.7
Corporation tax	**0.7**	3.2
	6.3	6.9

7 | CREDITORS

	2008 £m	2007 £m
Amounts falling due within one year:		
Bank overdrafts and loans	**210.7**	202.6
Amounts due to subsidiary undertakings	**20.7**	26.6
Other creditors	**6.1**	4.7
	237.5	233.9

Amounts falling due after one year:		
Long-term borrowings	**30.2**	30.2

Long-term borrowings due after more than one year comprise borrowings in respect of a ten-year private placement of loan notes made in February 2003. The borrowings are unsecured and fixed at an interest rate of 6.4% per annum for ten years.

8 | SHARE CAPITAL

Details of the share capital of the Company are included in note 22 of the consolidated financial statements.

9 | RESERVES

The movement in reserves is as follows:

	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Share scheme reserve £m	Profit & loss £m
At 1 July 2006	20.0	1.2	2.7	(1.9)	14.3
Issue of shares	7.0	–	–	–	–
Increase in investment in own shares	–	–	–	(8.2)	–
Movement in provision for share-based payments	–	–	–	1.5	–
Profit for the year	–	–	–	–	18.1
Dividends paid	–	–	–	–	(9.8)
At 30 June 2007	27.0	1.2	2.7	(8.6)	22.6
Issue of shares	7.4	–	–	–	–
Increase in investment in own shares	–	–	–	(2.3)	–
Movement in provision for share-based payments	–	–	–	(0.9)	–
Profit for the year	–	–	–	–	15.9
Dividends paid	–	–	–	–	(21.0)
At 30 June 2008	**34.4**	**1.2**	**2.7**	**(11.8)**	**17.5**

The balance on the share scheme reserve comprises the investment in own shares of £13.5m (2007: £11.2m), net of the provision for share-based payment schemes of £1.7m (2007: £2.6m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment schemes are included in note 24 of the consolidated financial statements.

10 | RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2008 £m	2007 £m
Opening shareholders' funds	**45.3**	36.7
Profit for the year	**15.9**	18.1
Dividends paid	**(21.0)**	(9.8)
Issue of shares	**7.4**	7.0
Increase in investment in own shares	**(2.3)**	(8.2)
Movement in provision for share-based payments	**(0.9)**	1.5
Closing shareholders' funds	**44.4**	45.3

PRINCIPAL OPERATING SUBSIDIARIES AND BUSINESS UNITS

Construction	**Kier Regional Limited** Kier Build Kier Eastern Kier London Kier Northern Kier North West Kier Partnership Homes Limited Kier Scotland Kier South East Kier Southern Kier Western Marriott Construction Moss Construction
	Kier Construction Limited
Support Services	**Kier Support Services Limited** Kier Building Maintenance Kier Building Services Engineers Kier Engineering Services Kier Harlow Limited Kier Islington Limited Kier Managed Services Limited Kier Plant Limited Kier Sheffield LLP Kier Stoke Limited
Homes	**Kier Residential Limited** Allison Homes Eastern Limited Bellwinch Homes Limited Kier Homes Limited Kier Homes Northern Limited Twigden Homes Limited
Property	**Kier Property Limited** Kier Developments Limited (50% owned and accounted for as a joint venture) Kier Ventures Limited
Infrastructure Investment	**Kier Project Investment Limited**
Group Services	**Kier Limited**

Notes:

i) Each company is registered in England and Wales and operates principally within the United Kingdom. Kier Construction Limited also operates in the Middle East, the Caribbean and Romania.

ii) The Group has entered into partnership agreements with Harlow 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 Sheffield LLP and Kier Stoke Limited.

iii) The ordinary share capital of all other companies is wholly owned. Kier Group plc holds directly all the shares of Kier Limited and Kier Residential Limited. The shares of the other companies are held by subsidiary undertakings.

iv) A full list of the Group's subsidiaries is included in the Company's annual return.

PRINCIPAL JOINT ARRANGEMENTS AND JOINT VENTURES

Joint arrangements

Construction

The following joint arrangements, in which the Group participation is between 33% and 50%, operate in the United Kingdom:

Besix/Kier	a joint arrangement between Kier Construction and NV Besix SA.
KMI Plus	a joint arrangement between Kier Construction, J Murphy & Sons Limited, Interserve Project Services Limited and Mouchel Parkman Services Limited

The following joint arrangements, in which the Group participation is between 40% and 50%, operate overseas, in the territory indicated:

Dubai

Leighton/Kier	a joint arrangement between Kier Construction and Gulf Leighton LLC.

Jamaica

Besix/Kier	a joint arrangement between Kier Construction and NV Besix SA.
Kier/CCC	a joint arrangement between Kier Construction and Commercial Contracting Company of San Antonio, Inc.

Suriname

Kier/CCC	a joint arrangement between Kier Construction and Commercial Contracting Company of San Antonio, Inc.

Romania

Mivan/Kier	a joint arrangement between Mivan Limited and Kier Construction

Commercial property development

The Group has a 25% participation in a joint arrangement in England between Kier Property and Norwich Union Life and Pensions Limited.

Joint ventures

	Interest held
Construction	
Incorporated and operating in the Kingdom of Saudi Arabia	
Saudi Comedat Co.	25%
Long-term concession holding under the Private Finance Initiative	
Academy Services (Holdings) Limited	50%
Academy Services (Norwich) Holdings Limited	50%
Academy Services (Oldham) Holdings Limited	50%
Academy Services (Sheffield) Holdings Limited	50%
Academy Services (Waltham Forest) (Holdings) Limited	50%
ASK (Holdings) Limited	50%
Information Resources (Holdings) Limited	50%
Information Resources (Oldham) Holdings Limited	50%
Justice Support Services (North Kent) Holdings Limited	42.5%
Prospect Healthcare (Hinchingbrooke) Holdings Limited	50%
Prospect Healthcare (Ipswich) Holdings Limited	50%
Prospect Healthcare (Reading) Holdings Limited	50%
Commercial property development	
Kier Developments Limited	50%
Kier Warth Limited	50%

Notes:

i) Joint arrangements 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.

ii) Except where otherwise stated the companies are incorporated and operate in the United Kingdom.

FINANCIAL RECORD

Year ended 30 June	2008 £m	IFRS 2007 £m	2006 £m	2005 £m	UK GAAP 2004 £m
Revenue: Group and share of joint ventures	**2,374.2**	2,127.9	1,838.3	1,623.2	1,476.5
Group operating profit	**82.9**	74.9	56.0	48.1	39.4
Joint ventures – share of operating profit	**4.4**	7.3	7.2	5.2	3.2
Total finance cost net	**0.9**	(3.2)	(2.7)	(4.3)	(2.0)
Joint venture tax	**(1.1)**	(1.4)	(1.4)	(1.2)	–
Profit before tax before exceptional items	**87.1**	77.6	59.1	47.8	40.6
Exceptional items	**(23.7)**	–	–	6.7	–
Profit before tax	**63.4**	77.6	59.1	54.5	40.6
Income tax	**(15.2)**	(21.3)	(16.2)	(17.9)	(12.0)
Profit for the year	**48.2**	56.3	42.9	36.6	28.6
Earnings per share					
– undiluted	**130.7p**	155.0p	120.8p	103.4p	81.5p
Dividend per share	**55.0p**	50.0p	26.0p	22.2p	19.0p
At 30 June					
Shareholders' funds	**£183.1m**	£183.0m	£108.5m	£52.8m	£116.4m
Net assets per share	**494.6p**	500.4p	302.3p	148.0p	327.7p

The figures for 2005 were restated in 2006 in respect of the transition from UK GAAP to IFRS. The figures for 2004 above have not been restated to an IFRS basis as it is not practicable to do so.

CORPORATE INFORMATION

Directors
P M White CBE FCA Chairman
J Dodds Chief Executive
I M Lawson FCIOB
D E Mattar BSc FCA
M P Sheffield BSc CEng MICE
R W Side FCIOB FFB MCMI
R W Simkin BSc MRTPI
C V Geoghegan BA FRAeS
S W Leathes MA FCA

M D Barton LLB Secretary

Headquarters and Registered Office
Kier Group plc
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Telephone: 01767 640111
www.kier.co.uk

Registered Number
England 2708030

Financial calendar

8 November 2008
Annual general meeting

28 November 2008
Payment of final dividend for 2007/08

February 2009
Announcement of half-year results
and interim dividend for 2008/09

April 2009
Payment of interim dividend

September 2009
Announcement of preliminary full-year results
and final dividend for 2008/09

Auditors
KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

Bankers
Bank of Scotland
New Uberior House
11 Earl Grey Street
Edinburgh
EH3 9BN

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

The Royal Bank of Scotland PLC
280 Bishopsgate
London
EC2M 4RB

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

Stockbrokers
Landsbanki Securities (UK) Limited
Beaufort House
15 St Botolph Street
London
EC3A 7QR

Financial Advisors
Hawkpoint Partners Limited
41 Lothbury
London
EC2R 7AE

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Kier Group plc
Tempsford Hall, Sandy
Bedfordshire SG19 2BD

Tel: 01767 640111
Fax: 01767 640002
www.kier.co.uk

UNITED KINGDOM SUPREME COURT, PARLIAMENT SQUARE, LONDON

Good progress has been made by Kier Group on the renovation of the Middlesex Guildhall in Parliament Square, London, to deliver the new United Kingdom Supreme Court for the Ministry of Justice in 2009. The project is spearheaded by Kier Property, Kier's development arm, and its historic building refurbishment specialist, Wallis, is acting as main contractor. Kier Engineering Services, part of Kier Support Services, has also provided structural engineering technical support for the project.