Proud to be Kier

Kier Group plc
Annual Report and Accounts 2011

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Kier Group plc is a leading construction, services and property group specialising in building and civil engineering, support services, residential and commercial property development and infrastructure project investment. The Group employs 10,700 people worldwide and has an annual revenue of £2.2bn.

Kier Annual Report online
We have now enhanced the online version of the Kier Annual Report. You can access the Report by visiting the web address below after 17 October, 2011.

Visit **kier.co.uk/ar2011**

Front cover image
There are many routes through which Kier trains and develops its workforce. Our mentoring programme provides site-based trainees with the opportunity to get real-life hands-on experience under the watchful eye of suitably qualified personnel. Trainee engineer Holly Brunt, who is currently undergoing the mentoring programme, is pictured with general foreman Jimmy Stanley at St Catherine's & Firwood Academy site in Bolton.

Group highlights

Financial highlights

Revenue

£2,179m

(2010: £2,099m)

Profit before tax*

£68.9m

(2010: £55.5m**)

Earnings per share*

148.4p

(2010: 117.7p**)

Dividend per share

64.0p

(2010: 58.0p)

Net cash balances
(at 30 June 2011)

£165m

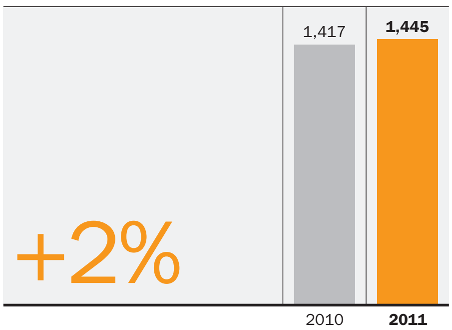
(2010: £175m)

Order books for Kier Construction and Kier Services

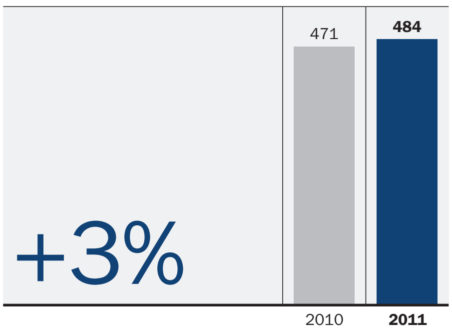
£4.3bn

(2010: £4.2bn)

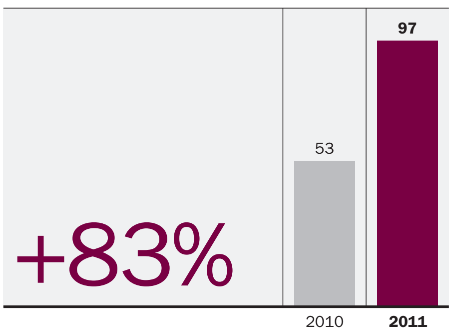
Kier Construction revenue (£m) p12



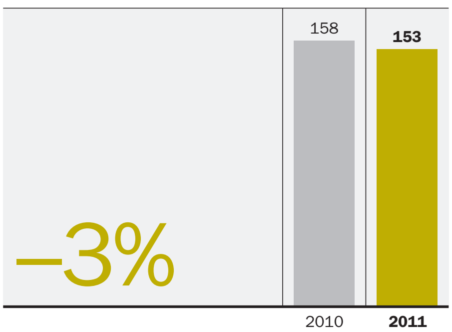
Kier Services revenue (£m) p18



Kier Property revenue (£m) p22



Kier Homes revenue (£m) p26



* Before exceptional items and amortisation of intangible assets
** Excluding Homes 2010 one-off land transaction profit of £7.1m

Kier at a glance

Whatever a customer requires at any stage of the built environment life-cycle, one or more of our businesses can bring them solutions, individually or combined, locally or nationally. Our network of regional offices and our strong local relationships ensure that we can supply both the skills and the resources to meet customer demands, anytime, anywhere.

Our divisions

Kier has the financial strength, the ability and the resources to adapt its offering of services to meet any customer's requirements in the built environment. Whether through acquisition or through creating and developing new areas of expertise and resources within the Group, we are proactive in providing solutions where a customer's need has been identified.

Kier Construction

p12

Revenue

£1,445m

(2010: £1,417m)

Operating profit

£39.3m

(2010: £36.2m)

The Construction division encompasses our UK regional contracting, civil engineering and overseas businesses.

Kier Services

p18

Revenue

£484m

(2010: £471m)

Operating profit*

£21.7m

(2010: £21.4m)

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

* Before amortisation of intangible assets

Kier Property

p22

Revenue

£97m

(2010: £53m)

Operating profit

£11.1m

(2010: £4.5m)

The Property division comprises two main businesses: commercial, industrial, retail, mixed-use property development and structured property financing (PFI).

Kier Homes

p26

Revenue

£153m

(2010: £158m)

Operating profit

£4.2m

(2010: £2.8m)*

The Homes division brings together our social housing contracting business with our private house building business.

* Excluding 2010 one-off land transaction profit of £7.1m

Our market

"Kier has had another successful year in a tough economic environment; underlying revenue and profit before tax are well ahead of last year and cash generation has been very strong, with average month-end cash balances at a high level.

Our diverse skills and integrated business model have provided greater resilience during these challenging economic conditions. We are encouraged by the prospects we see in markets such as power and waste, in mixed-use regeneration and in the growth we see in public sector outsourcing.

Kier continues to benefit from its long-term client relationships and the numerous frameworks in which we are involved. Our network of local offices allows us to respond to the ever-widening requirement of customers for local capability to deliver 'bundled' services.

We have announced a full-year dividend of 64 pence per share, a 10% increase on last year. This demonstrates the strength of our financial position and the confidence we have in our business going forward.

Although we expect the next 12 months to be challenging, we remain confident that our positioning across a wide spectrum of service areas, coupled with our committed and professional staff, will enable us to deliver a good performance in the new financial year."

Paul Sheffield
Chief executive

Our built environment life-cycle

Whatever a customer requires at any stage of the built environment life-cycle, one or more of our businesses can bring them solutions, individually or combined, locally or nationally. At the heart of everything we do is a concern for the environment, social responsibility, health and safety and sustainability.

By providing our customers with the highest possible quality of service and through sustainable, profitable growth, our vision is to be the most highly respected company in the industry. By maintaining our core values and remaining focused on improvement and delivery, our vision will become reality.

Chairman’s statement

Phil White
Chairman

Net cash
(at 30 June 2011)

£165m

(2010: £175m)

The Group’s cash performance has remained exceptionally strong, particularly within our Construction and Services divisions, with average Group month-end net cash of £129m (2010: £95m).

Kier historic milestones

1922	Olaf Kier arrives in Britain after graduating with honours from the Copenhagen University of Engineering
1928	J Lotz and Kier contracting firm established
1932	J L Kier & Co Ltd partnership incorporated
1934	Lotz returns to Denmark and Ove Arup takes his place as a director of J L Kier
1940	Wimbledon office destroyed by bombing
1945	Contract awarded to a joint venture of Nuttall, Kier and some of the leading Dutch contractors for the rebuilding of Rotterdam Harbour
1963	Turnover rapidly increased when the company went public
1971	Charles Brand & Son Limited, a heavy civil engineering and mining contractor, becomes part of Kier
1972	Robert Marriott and Company Limited joins the Group
1973	Kier and W & C French merge to form French Kier Holdings Limited
1984	William Moss Group PLC acquired by French Kier
1992	Kier Group plc becomes Britain’s first major contractor to be employee-owned
1996	Kier floated on the stock market
2001	Kier launches Services division
2003	Kier signs building maintenance partnership with Sheffield City Council
2008	Kier forms joint venture with Network Rail to develop stations in SE London
2009	Kier starts work on £600m outsourcing contract for North Tyneside Council
2011	Kier acquires property portfolio from Lloyds for £91m

Phil White (Chairman) and Paul Sheffield (Chief Executive) at our Epsom Station site, a Solum Regeneration project being delivered by Kier.

I am pleased to report impressive results for Kier Group plc for the year ended 30 June 2011. Underlying profit before tax, before the amortisation of intangible assets and exceptional items, improved 24% to £68.9m (2010: £55.5m excluding Homes land transaction) and earnings per share on the same basis increased 26% to 148.4p (2010: 117.7p), enhanced by a 2% reduction in the effective tax rate.

Overall, revenue increased to £2,179m (2010: £2,099m) displaying underlying growth in all four divisions of the Group and the strength of our business.

Particularly pleasing were the operating margins, which increased in our Construction division to 2.7% (2010: 2.6%) and remained strong in our Services division at 4.5% (2010: 4.5%). The Homes and Property divisions also saw an increase in underlying operating margin.

There were exceptional items that totalled a net credit before tax of £7.0m (2010: charge of £2.0m). These comprised inflation changes to the Kier Group Pension Scheme, a reduction in the fine levied by the Office of Fair Trading, a write-down in the value of land and work in progress following recent land sales and a further review, and external costs relating to two acquisitions in the year.

The Group's cash performance has remained exceptionally strong, particularly within our Construction and Services divisions, with average Group month-end net cash of £129m (2010: £95m). In our Property division, following the £35m first-stage payment for the property portfolio from Lloyds, we were pleased to see the early sale of two assets recoup much of that outlay and support a Group net cash position at 30 June of £165m (2010: £175m).

Taking into account the performance of the Group and its cash position, and continuing the Group's progressive dividend policy, the Board proposes to increase the total dividend for the year by 10% to 64p (2010: 58p), which is more than twice covered by adjusted earnings per share and reflects the Board's confidence in the business going forward. The final dividend of 44p will be paid on 30 November 2011 to shareholders on the register on 23 September 2011 and there will be a scrip dividend alternative.

Board changes

As we announced at the time of our interim results in February, Dick Simkin, the executive director for the Property division, retired at the end of the 2011 financial year and Ian Lawson, executive director for the Services and Homes divisions, has taken over the role from 1 July 2011. We would like to thank Dick for his excellent contribution to the Group and we wish him well in his retirement.

In September 2010, we announced that Simon Leathes, non-executive director and chairman of the Audit Committee, would also be stepping down from the Board at the Company's 2010 annual general meeting after nearly ten years. Richard Bailey, who joined the Board on 1 October 2010, has succeeded him.

Recently there has been debate generally about board diversity and, in particular, the representation of women in the boardrooms of FTSE companies. The Board acknowledges the recommendations from Lord Davies of Abersoch's report entitled 'Women on Boards', which highlights the value of effective diversity policies. As a Board, we are considering how best to implement the key recommendations of this report, whilst recognising the importance of maintaining an appropriate balance of independence, skills and experience. In addition, the Group's corporate responsibility committee, which is chaired by the chief executive and reports regularly to the Board, is currently reviewing the Group's diversity, equality and inclusion policies.

Outlook

Over the last few years, we have positioned ourselves to capitalise on what we perceive as the growth markets. Whilst market conditions in 2012 will remain challenging, our order books in the Construction and Services divisions were at a healthy level of £4.3bn. The Construction order book (secured and probable) stood at £2.3bn (June 2010: £2.1bn) and represented 95% of the division's targeted revenue for 2012 and 46% of its targeted revenue for 2013, which was slightly ahead of normal, and we expect our operating margins to remain firmly above 2%. Our order book in Services stood at £2.0bn (2010: £2.1bn), giving good forward visibility of workload which, coupled with a strong pipeline of further opportunities, will translate into revenue growth for the division in the year to June 2013. Moreover, we expect our operating margins to be maintained at a resilient 4.5%.

The Property division remains a key generator of integrated opportunities for the Group. With increased scale, particularly following the acquisition of the property portfolio from Lloyds, the division is actively working on a variety of development schemes. When coupled with the recent disposals of three of our Private Finance Initiative (PFI) investments, in line with our strategy of selectively disposing of our mature PFI investments, it now means that the Property division is, and will continue to be, one of the key contributors to the Group's performance.

Our refocused Homes division is continuing to pursue the growing opportunities in the mixed tenure market and we remain committed to developing and disposing of parcels of land over time in order to reduce the disproportionate size of our land bank and to realise cash, which will be invested in the Group's future growth.

Our integrated business model continues to provide a good breadth of opportunities and, with our strong track record of delivery, the Group is well placed to make further progress in the new financial year.

Phil White
Chairman

Chief Executive's review

We remain a robust and sustainable business, with committed and professional staff in whom we have confidence and their abilities will underpin further progress by the Group in the new financial year.

Paul Sheffield
Chief Executive

Profit before tax*

£68.9m

(2010: £55.5m**)

* Before exceptional items and amortisation of intangible assets
** Excluding Homes 2010 one-off land transaction profit of £7.1m

Overview

Kier has had another successful year to 30 June 2011, with underlying revenue and profit before tax ahead of last year. This good performance has been supported by strong cash generation, with an average Group month-end net cash balance of £129m (June 2010: £95m).

Much hard work has produced these strong results. Our broad skill base and integrated business model continue to provide Kier with a wide range of opportunities across our different divisions. Our diversity and flexibility, when combined with our track record of delivery and customer service, ensures that we are in a position to significantly benefit from the varying market opportunities and be the partner of choice for our customers.

Financial performance	**Total revenue £m**	**Operating profit* £m**
Construction	1,445	39.3
Services	484	21.7
Property	97	11.1
Homes	153	4.2
Centre	–	(5.2)
	2,179	**71.1**

* Before exceptional items and amortisation of intangible assets

Revenue for the year at £2,179m was slightly higher than last year (£2,099m). Underlying growth was achieved in all divisions, most notably in Property following the acquisition of the property portfolio from Lloyds; however, it is the quality of our revenue that is most pleasing.

Operating profit for the Group, before the amortisation of intangible assets, was 23% ahead of last year at £71.1m (2010: £57.7m excluding Homes land transaction) principally because of the significant operating margin of 2.7% in Construction and the resilient operating margin of 4.5% in Services,both of which were underpinned by strong cash generation.

Exceptional items amounted to a net credit before tax of £7.0m for the year (2010: net charge of £2.0m), as follows:

- a gain of £25.7m arising from inflation changes (RPI to CPI) announced in the 2010 Budget which have been applied to the Kier Group Pension Scheme;
- a reduction in the fine levied by the Office of Fair Trading (OFT), from £18.0m to £1.7m, with associated costs of £0.7m incurred in relation to our appeal;
- a charge of £33.5m relating to a write-down of our land and work in progress following a further review and in light of the values received from recent land sales; and
- external costs of £0.8m relating to the acquisitions of Beco Limited (Beco) and the property portfolio from Lloyds.

The strengths of our integrated business model

By providing our customers with the highest possible quality of service and through sustainable, profitable growth, our vision is to be the most highly respected company in the industry. By maintaining our core values and remaining focused on improvement and delivery, our vision will become reality.

1. Managing responsibility
We believe profoundly that by managing our corporate responsibilities, our brand, business risks, governance, ethics and finances, we manage responsibly.

2. Delivering quality
What Kier and its constituent parts do as a business is to provide a full range of quality services to plan, invest in, build, manage, maintain and service the built environment nationwide and overseas.

3. Nurturing stakeholder relationships
We value customers and aim to deliver the highest quality of services in all we do and therefore our supply chain partners, subcontractors and suppliers alike, are key to enabling us to deliver the best quality of product and service.

Profit before tax, before the amortisation of intangible assets and exceptional items, for the year was 24% ahead of last year at £68.9m (2010: £55.5m excluding Homes land transaction). On the same basis, earnings per share was 26% ahead at 148.4p (2010: 117.7p excluding Homes land transaction).

The trading result for the year was underpinned by strong cash generation, with high average Group month-end net cash balances of £129m (June 2010: £95m) after investment of approximately £50m during the year including the property portfolio from Lloyds, deferred land payments, further investment in Pure Recycling, and the acquisition of Beco.

Group structure and strategic developments

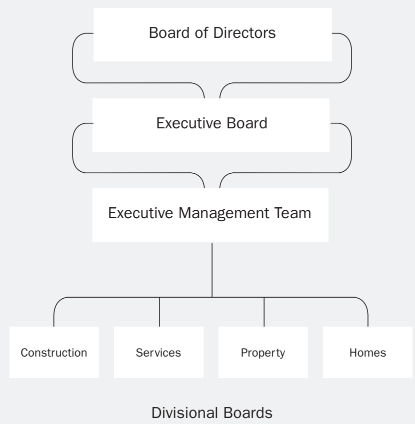
Four divisions support our integrated business model: Construction, Services, Property and Homes. The Group's management structure and segmental analysis for reporting purposes for the year to 30 June 2011 are based on these four divisions.

We are able to offer integrated solutions through the provision of a range of services including investment, planning and design, construction, maintenance, soft and hard facilities management, waste, energy and environmental services and regeneration. This is a combination of services, which few other organisations can offer and makes us resilient during the current challenging economic environment.

Epsom Station
Work progressing at Epsom Station – one of several stations in the south-east and London that are the subject of redevelopment by Solum Regeneration, a joint venture between Network Rail and Kier Property. As part of the project, Kier is undertaking the building and civil engineering works for a mixed-use scheme to deliver improvements to the station and provide retail space, a hotel, parking and 124 high quality apartments.

How we are managed

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



National presence, local focus

Kier has a long-established network of 65 regional offices across the country enabling us and our supply chain to be truly local everywhere. Delivering through this nationwide network of local offices means we can create work for local SMEs which in turn can offer local employment and apprenticeship opportunities. This is coupled with the robust national buying power and resources available to a major company like Kier enables us to offer any scale of work to our customers, anywhere.

Considerate Constructors Scheme National Awards

Kier has been awarded more CCS National Awards in 2011 than any other company in the scheme

42

(2010: 29)

UK projects

We currently have projects underway in approximately 250 towns and cities throughout the UK and participate in over 70 frameworks across the UK

250

Employees in UK

The Group employs 10,700 people worldwide

10,700

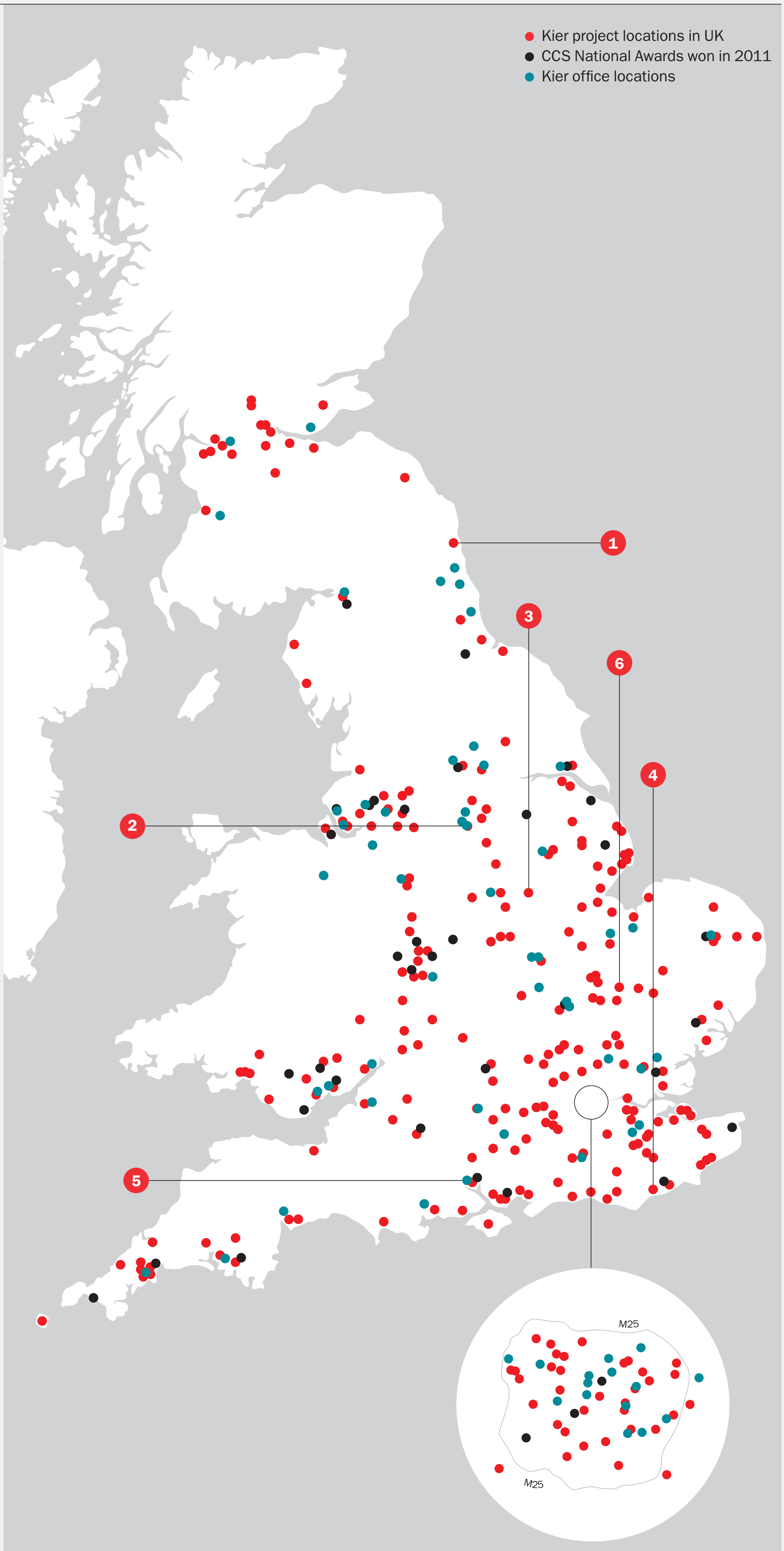
(2010: 11,600)

Local subcontractors

Subcontractors used across the UK by our Construction division

c.6,500

Kier participated in the 2011 BITC Mayday Journey. Reporting through the Prince's Mayday Network enables us to track our progress along the Mayday Journey – from reducing costs, engaging employees, building resilience to climate change and transforming our business strategy.



Josephine Butler Academy, Northumberland
Kier signed a £46m contract with Northumberland County Council to deliver three new buildings for the Northumberland Church of England Academy, sponsored by the Duke of Northumberland and the Church of England Diocese of Newcastle. The Josephine Butler Academy in Ashington will be one of the biggest and most ambitious Academy buildings in the north of England and is scheduled to open by Easter 2012.

Kris McGough and Paul Menton, Sheffield
Kris McGough and Paul Menton at work in Sheffield where Kier designs, supplies, installs, refurbishes and provides a responsive repairs service to lifts and stairlifts. This service is offered to clients in both the public and private sector.

Photovoltaic panels, Nottingham
Solar-powered energy generation is one of the most exciting sustainable energy opportunities for the housing and construction sectors and one of the key ways in which we can help the UK towards its climate change targets. Wayne Bullement is pictured installing photovoltaic panels in Nottingham. Kier worked in partnership with Eon to install the panels on 600 homes for Nottingham City Homes.

Bexhill High School, East Sussex
Kier designed and built the 12,000sq m Bexhill High School responding to the unique demands of a transformational curriculum focused on project-based learning. Sixteen learning pods provide facilities for up to 90 students surrounding the heart space. The £32m project received a BREEAM Very Good rating and was nominated in the British Council for School Environments annual awards under the category of Excellence in Design for Teaching and Learning: Secondary Schools.

Adanac Park, Southampton
The new Ordnance Survey head office, sited alongside the M271, is a flagship corporate building at the gateway to Southampton. Developed as a joint venture between four Kier companies, the turnkey development is another example of Kier offering innovative solutions to customers seeking alternative funding methods by capitalising on the integrated expertise of the Group.

Sainsbury Laboratory, Cambridge
Kier was involved with the construction of a new research laboratory for the study of plant development situated in the Botanic Garden at Cambridge University.

The building provides a home for the University Herbarium, which contains over one million pressed and dried plant specimens from all over the world, including those collected by Charles Darwin on the *Beagle* voyage. The £68.3m scheme also houses 120 scientists, supported by more than 30 additional staff.

Chief Executive’s review
continued

Sea City Museum, Southampton
The Sea City Museum recently held a topping-out ceremony to mark the final stages of construction of the new special exhibitions pavilion. Kier operations director Martin Orr, site manager Andy Hammerton and Southampton’s mayor Cllr Terry Matthews attended. Sea City, which has been supported with a £4.9m grant from the Heritage Lottery Fund, is scheduled to open to the public in April 2012.

GREEN APPLE ENVIRONMENT AWARD WINNER

Kier won seven Green Apple awards in 2011, two Gold awards in the Built Environment category and five others in the Environment Best Practice category.

Our strategy is to continue to focus on growth areas in each of our divisions, leveraging the many opportunities that arise through our integrated model. Our diversity enables us to find work in a wide range of sectors, and allows us to respond to and strengthen our relationships with both private and public sector customers.

In the overall construction market conditions remain challenging in the short term because of the budgetary constraints on many of our public sector clients and the difficult economic conditions for our private sector clients. There has been a contraction, over the past couple of years in the UK, in the level of construction activity and it is unlikely there will be any improvement until at least 2013. This means new schemes are attracting a larger number of bidders and are being very competitively contested.

However, our network of local offices, coupled with our diverse set of capabilities, enable us to pursue a wide range of opportunities. This is evident in this division by our move away from public sector work and into the private sector whilst growing revenues, particularly in areas of non-discretionary, economic infrastructure investment, such as:

- power, where we are a leading player in the provision of civil engineering works;
- waste, a growing market which includes recycling and power generation opportunities; and
- transport, both in the UK and overseas.

Other growth areas include:
- commercial, primarily in London and the south-east;
- mixed-use and urban regeneration; and
- overseas, where we are growing in our three principal territories: Hong Kong, the Middle East and the Caribbean.

In our Services division, we are seeing an increase in the number of tender opportunities across all sectors, as both public sector and private businesses seek to outsource more operations to help ease their cost pressures. We anticipate that this is most likely to translate into revenue growth in the year to June 2013. We have long-term visible revenues to 2020 and beyond, at strong, consistent margins and these long-term contracts allow us to expand our activities through the involvement of other Group businesses as our clients and partners seek a one-stop, integrated delivery model to service their requirements.

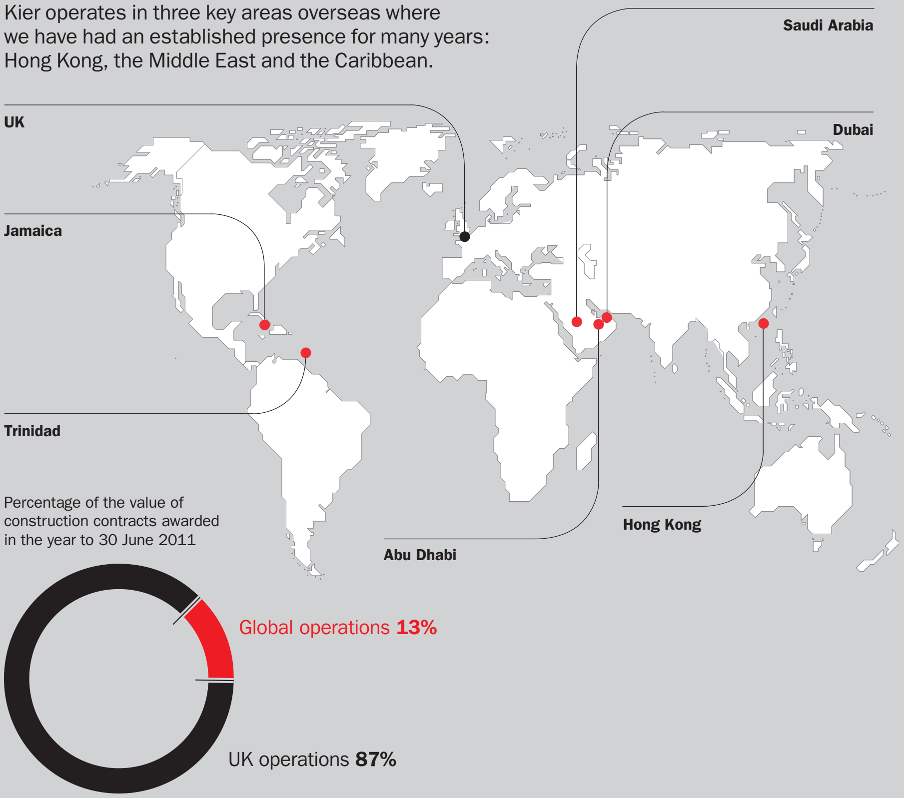
Our Property division, which is a key generator of integrated opportunities for the Group, is in a strong position to expand its portfolio and to contribute an increasing proportion of the Group’s results in the next few years. We will continue our strategy of pursuing largely non-speculative development, together with identifying innovative funding routes to support our growth and making the best use of the Group’s cash reserves.

In our Homes division, we have refocused the business towards social and mixed-tenure housing, while maintaining a 500 to 600-unit private housing business, building on Kier-owned land. We will continue to reduce our land bank by developing homes for sale, or disposing of parts of it, which will unlock our cash investment over time. The receipt of £12.5m of Affordable Homes Programme (AHP) grant funding, our relationships with our framework partners and our position on the Homes and Communities Agency Delivery Partner Panel (HCA DPP) will enable us to exploit opportunities in the affordable housing market over the next few years.

Admiralty Station, Hong Kong (MTRC contract 901)
Kier, in joint venture with Laing O'Rourke and Kaden Construction, is working on a four-year contract valued at £190m for the Mass Transit Railway Corporation to deliver the new Admiralty Integrated Station in Hong Kong. The existing station is being significantly extended to provide interchange facilities between the existing Tsuen Wan Line, the new South Island Line (East) and the proposed Shatin to Central Link.

Global reach

Kier operates in three key areas overseas where we have had an established presence for many years: Hong Kong, the Middle East and the Caribbean.



Hong Kong tunnelling (MTRC contract 824)
Kier, as part of a three-way joint venture in which Kier holds a 50% share, is working on a £125m tunnelling contract for the Mass Transit Railway Corporation in Hong Kong. The project forms part of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link connecting mainland China and Hong Kong.

Chief Executive's review continued
Kier Construction

Steve Bowcott Executive director

56% of our awards were for public sector projects (2010: 74%). The transition from public sector to private sector is a trend that will continue and we expect to see the proportion of public sector work drop to less than 50% over the next year.

Order book

£2.3bn

(2010: £2.1bn)

Frameworks

70

Active on more than 70 frameworks across the UK

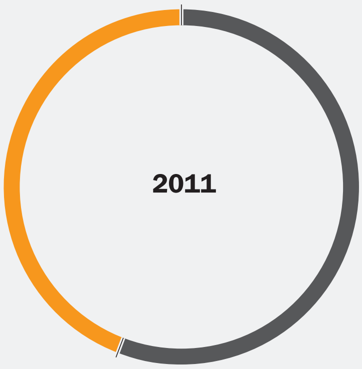
Construction operating margin

2.7%

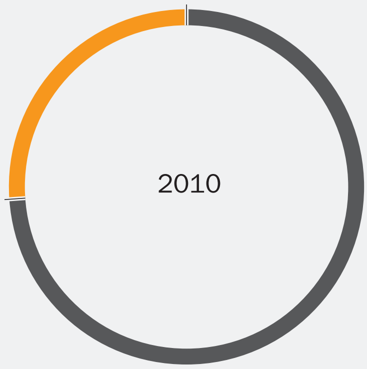
(2010: 2.6%)

Kier Construction contract awards (%)

Private sector 44% Public sector 56%



Private sector 26% Public sector 74%



Kier Construction highlights

> 68% of awards sourced through frameworks and collaborative bidding arrangements

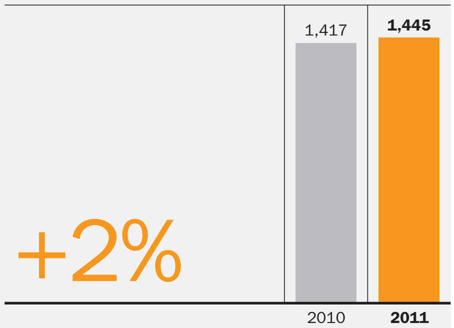
> In the power sector, where we are a leading player, we have identified £13bn of opportunities in next 5 – 10 years

> We are preferred bidder for two large waste management and waste-to-energy projects valued at £95m

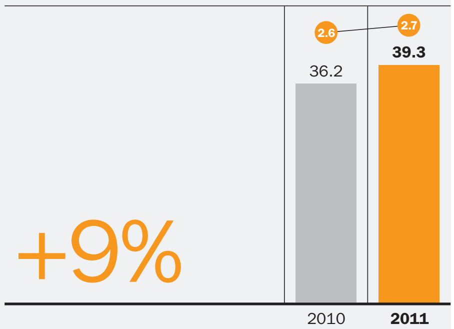
> We have been selected to deliver up to £110m of healthcare projects in the first nine months of the NHS ProCure 21+ framework

> In Hong Kong we have secured c. £320m of work in JV and have £50m of secured and probable awards in the Caribbean

Revenue (£m)



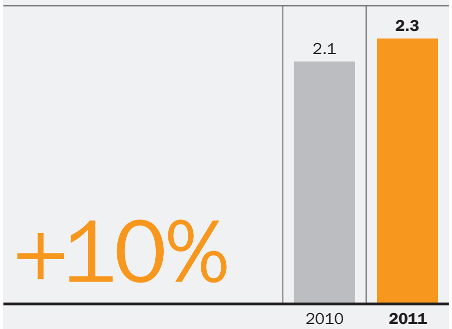
Operating profit (£m) **and operating margin** %



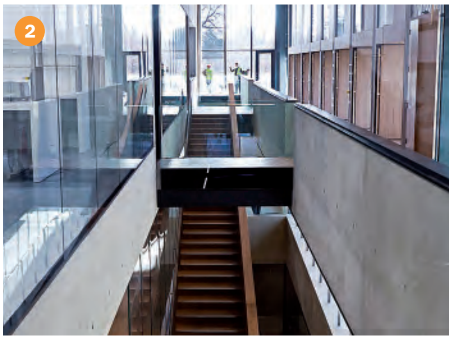
York Hospital
Kier's project at York Hospital to construct a new multi-storey car park consisting of ground, first and second floor levels plus an attached accommodation block, to be built in five phases. The car park will provide parking for 440 cars, and the accommodation block will house the car park management team, as well as the security department for the hospital where a new control room will be built. Kier engineer Sam Hill (right) during construction works.

Kier has been independently audited by Achilles and awarded level 5 compliance under the Building Confidence supplier evaluation programme.

Order book (secure and probable) (£bn)



Chief Executive's review continued
Kier Construction



1. New Sainsbury's store at Crindau, near Newport
Kier was contracted by Sainsbury plc to construct a new supermarket in Crindau, Newport. The £24m design & build project saw the erection of a new propped portal framed superstore which was completed in time for the 2010 Ryder Cup held in Newport.

2. Sainsbury Laboratory, Cambridge
Comprising laboratories, meeting areas, seminar rooms and a public café, the Sainsbury Laboratory is home to 120 world-leading botanical scientists. The roughly U-shaped building, which wraps around a central courtyard, was built by Kier. Apart from concrete, the building makes use of a sandy-coloured limestone sourced from Metz in France. The Sainsbury Laboratory was designed to achieve a BREEAM Excellent rating which was achieved.

3. 45 Park Lane, London
Kier is undertaking the conversion of the existing building into a hotel extension to provide 50 new suites for the Dorchester Hotel. The project includes a 120m link tunnel.

4. St George's School, Broadstairs
Kier's £22m design and build project, as part of Building Schools for the Future, has been designed to modern standards and includes a central multi-use teaching area with multiple house areas. The sports hall has been designed to meet the Sport for England requirements and also doubles as an examination hall which required sufficient additional fire escape provision.

Kier Construction
The Construction division encompasses our UK regional contracting, civil engineering and overseas businesses, which are highly skilled in the construction of the full range of building projects, together with power, waste, nuclear and infrastructure facilities and rail and mining projects. The division now includes a newly formed Process & Engineering business which provides mechanical and electrical (M&E) design and delivery services to grow our in-house M&E capability. Through the development of our own 4D building information modelling (BIM) processes, we are at the forefront of the industry and are ready to respond to the Government's Construction Strategy which will require the use of this technology in the future.

Construction business review
Revenue in Construction was 2% above last year, at £1,445m (2010: £1,417m), with modest growth in our UK revenues. Operating profit increased to £39.3m from £36.2m, at an improved 2.7% margin, ahead of last year's 2.6%. The margin performance was underpinned by excellent cash generation with a year-end cash balance at a record £423m (2010: £418m). Contract awards were higher than last year with 68% arising from our numerous frameworks and collaborative bidding arrangements. These awards have provided us with a secured order book amounting to £1,386m (2010: £1,320m), together with £859m of probable awards, comprising contracts on which we are preferred bidder or are in one-to-one negotiations (2010: £723m). In total, we are active on over 70 frameworks across the UK through which clients continue to procure a significant element of their work with a focus on quality and whole life-cycle costs.

56% of our awards were for public sector projects (2010: 74%). The transition from public sector to private sector is a trend that will continue and we expect to see the proportion of public sector work drop to less than 50% over the next year.

Of the public sector awards, many continue to be in the education sector, which accounted for 33% of awards (2010: 41%). Our education projects included six completed academies (£150m); another eight academies are on schedule to be handed over in the next 12 months and a further 11 academies (£180m) are progressing towards financial close. We have responded to the Government's 'more for less' initiative with innovative design solutions, leaving us well placed to target the 70 further academies (£1.0bn) approved under the framework.

Aerial shot showing progress on the house blocks at Featherstone Prison, near Wolverhampton
Kier was selected for a £196m contract by the Ministry of Justice to build a new Category 'B' prison facility at Featherstone, north of Wolverhampton. The project involves the building of three 480-place house blocks and additional associated facilities. Completion is due in the summer of 2012.

Our health sector revenue continues to grow and is approaching £100m per year. The sector represented 6% of our 2011 awards and a notable milestone was securing a position on the successful ProCure 21+ framework. In the first nine months of the framework, Kier has been selected to deliver up to £110m of healthcare projects, with a further £200m of opportunities to pursue before the end of the 2011 calendar year.

In the private sector, the commercial, power and waste sectors are providing us with the most significant opportunities, particularly in London and the south-east in the case of the commercial sector.

During the year, we secured circa £150m of commercial building projects, including the £45m Howick Place development for Terrace Hill and £57m of schemes for Coca-Cola and Pontsarn Properties in Uxbridge and Fetter Lane, Holborn. We are preferred bidder on a further two schemes for the developer, Argent, at King's Cross, with a combined value of £110m, and for a £70m medical facility for UCL.

Contracts awarded and market predictions

Sector	2010 awards £1.4bn	Previous prediction	2011 awards £1.5bn	Likely impact 2012 & 2013
Education	41%	↘	33%	↘
Transportation (rail + airports)	3%	↗	13%	↘
Overseas	1%	⇧	13%	⇔
Commercial	4%	↗	10%	↗
Residential/accommodation	2%	⇔	9%	↗
Health	7%	↘	6%	↗
Retail	4%	↗	4%	↘
Industrial	3%	⇔	3%	↗
Hotels/leisure	5%	⇔	3%	⇔
Custodial	23%	↘	2%	⇔
Mixed use	1%	↗	1%	↗
Defence	4%	↘	0%	↗
Power and waste*	0%	↗	0%	↗
Other (inc. utilities)	2%	N/A	3%	N/A

* Whilst there were no awards in 2011, we have £150m at Preferred Bidder stage: two key waste contracts and expected awards in the power sector

Kier Construction

Southampton Operational Command Unit
Standing eight floors high, the 8,500sq m Southampton Operational Command Unit (OCU) building is a striking landmark at the gateway to the city and will provide office accommodation for 500 police staff, including the crime scene investigation and criminal justice units. The new centre now allows the Southampton OCU to centralise its operations under one roof for the first time.

During the year we have been particularly successful in the transport sector, which accounts for over 13% of the division's contract awards. We were successful in securing contracts on the Crossrail programme (in joint venture) winning the C300/410 Western Tunnels and Station Caverns at Tottenham Court Road and Bond Street valued at £500m, and subsequently the station enabling works contracts at Liverpool Street and Whitechapel, valued at approximately £50m. We are continuing to tender for major works schemes on the Crossrail programme.

We have also secured the station development contract at Epsom Station and are named preferred bidder at Twickenham Station for Solum Regeneration, our joint venture with Network Rail, valued at £40m. Our rail project to replace the roof at King's Cross Station, a Grade I listed structure, is on track for completion ahead of the Olympic Games.

The energy sector remains a key focus for our plans and we expect significant activity in this area as the UK's ageing fleet of power stations is replaced over the next ten years. Our operations in the sector include our 14th combined cycle gas turbine power station for EDF Energy (EDF) at West Burton (£130m), which completed during the year. We have also been awarded the £50m contract to build an energy-from-waste plant in Plymouth for MVV and South Devon Waste Partnership and we are preferred bidder for a new £45m waste treatment facility at Wakefield and have been short-listed in the tender process for the Peterborough waste project.

At Hinkley in Somerset, we are the first contractor, in joint venture, to commence advance works on site for EDF's planned new nuclear power station. Our joint venture is short-listed for a number of major packages of work on this scheme totalling in excess of £400m. In the nuclear market, we also continue to deliver projects at Aldermaston and Sellafield, and we see a number of other opportunities coming to tender in this sector with significant barriers to entry.

Overseas, our key markets are growing and a number of major awards have been secured during the year, representing 13% of the division's total contract awards.

In Hong Kong, we have secured approximately £320m of work, in joint venture, for the Mass Transit Railway Corporation (MTRC) and prospects in the territory remain encouraging. A number of further contracts with the MTRC are being selectively targeted together with other government infrastructure works.
Our business in the Caribbean has enjoyed a particularly good year, winning over £35m of work in the period, with a strong pipeline of future prospects in its key sectors.

In Saudi Arabia, we have completed two years of an eight-year phosphate mining contract for our client, Ma'aden. We are pursuing further opportunities as the Saudi mining sector expands. We are also bidding in joint venture for some significant railway development projects planned in the region. Despite the challenging economic environment in the Middle East, we remain assured of the longer-term potential in the region and anticipate a period of sustained and profitable growth.

Construction markets and outlook

Notwithstanding the excellent position we are in with a strong forward workload there is a significant shift in spending patterns from public sector social infrastructure projects to private sector and areas of regulated spend. Companies like Kier, with a broad capability and skills to adapt to these growing markets, are well placed to access a healthy pipeline of quality opportunities. Competition for the declining public sector workload is increasing and our focus remains on securing quality work through frameworks and targeting the power, waste and nuclear markets and commercial building projects from our long-term customers. The power market alone, in which we are a leading player, is likely to provide us with over £13bn of opportunities over the next ten years and we are already winning work in this sector.

Our mix of work has shifted from 74% to 56% for the public sector in the last year and we expect this to continue such that our public sector work will decrease to less than 50% over the next 12 months. However, we expect to maintain a good proportion of the work from the public sector, as evidenced by our appointment in September 2011 as sole contractor to deliver up to £1.0bn of construction projects over four years on behalf of Scape, a local authority alliance. It is estimated we will be carrying out over 2,500 projects in this national framework across education, police, leisure, residential and other civic services with assistance from our Services division.

Overall Kier Construction is well positioned in its key markets. The division has a diversity of skills, which is one of its key strengths, and this has enabled it to grow its order book during the current financial year while maintaining its selective bidding processes.

The order book (secured and probable) stands at £2.3bn (June 2010: £2.1bn) and represents 95% of the division's targeted revenue for 2012 and 46% of its targeted revenue for 2013, which is slightly ahead of normal, and we expect our operating margins to remain firmly above 2%.

1. York Hospital
Kier was chosen by The York Hospitals NHS Trust to be Principal Supply Chain Partner (PSCP) for the delivery of this project under the NHS ProCure 21 framework agreement to remodel the day unit. Works comprised the complete internal strip-out and remodelling of the existing first-floor day unit and Ward 12 to form a new six-theatre suite with corresponding day and 24-hour support facilities.

2. Benton Dene School, Newcastle
Kier's project at Benton Dene School provides a building designed to allow fully integrated education of mainstream and special needs primary pupils. It boasts features such as underfloor heating, enhanced acoustics and dedicated areas for language and communication therapy. The environmental impact of the project was carefully controlled throughout with a comprehensive waste management plan.

3. Blossomfield Campus, Solihull
Kier's project to design & build new facilities at Solihull College's Blossomfield campus was phased over two years in order to maintain operation of surrounding buildings without disturbance to the users. The 17 phases included enabling works, refurbishment of the existing buildings, major service diversions for gas, water, electricity and communications, and the demolition of the existing engineering building.

4. Worth Abbey Church interior, Worth
Kier's project to refurbish and modernise the Abbey Church in Worth involved the internal modernisation and upgrade of facilities plus external maintenance to the building. The existing flat roofs were overlaid with insulation and relaid. The high-level and clerestory windows were replaced and exposed concrete was repaired and treated. Internally, the choir stalls and altar area have been completely reformed and lowered.

5. Colchester Hospital
Kier was appointed by Colchester Hospital University NHS Foundation Trust under the P21 framework to provide a new two-storey ward block. The new building accommodates a new children's department on the ground floor and an elective care centre and surgical ward on the upper floor. The short timescale of the project resulted in the decision to construct the building using off-site modular construction techniques.

6. South Gloucestershire Council offices, Yate
Kier's three-storey office development in Yate for South Gloucestershire Council houses a number of sustainable features including a biomass boiler, wind turbine, enhanced glazing and rainwater harvesting. The building exceeded the client's target of a BREEAM Very Good rating, with the Kier team achieving an Excellent rating without additional cost to the project.

Chief Executive's review continued
Kier Services

Ian Lawson Executive director

The order books are at a healthy £2,030m at 30 June 2011 (2010: £2,128m); this figure does not include potential contract extensions, which could add approximately £750m if all were exercised by our customers.

Services operating margin

4.5%

(2010: 4.5%)

Order book

£2.0bn

(2010: £2.1bn)

Kier Services revenue

Maintenance

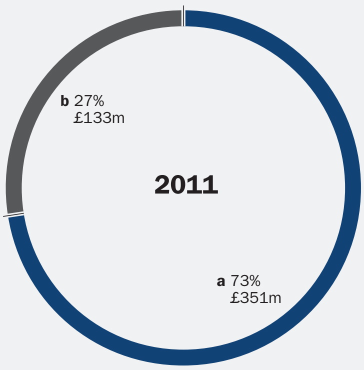
£351m

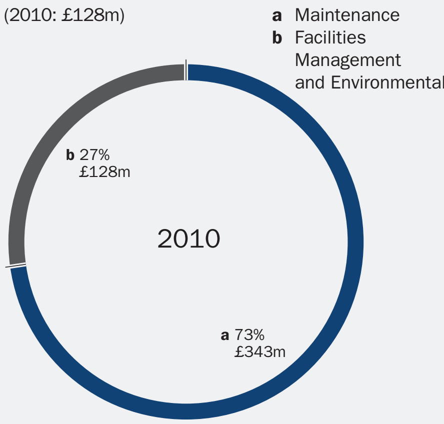
(2010: £343m)

Facilities Management and Environmental

£133m

(2010: £128m)





Kier Services highlights

> Stable order book and good forward workload visibility

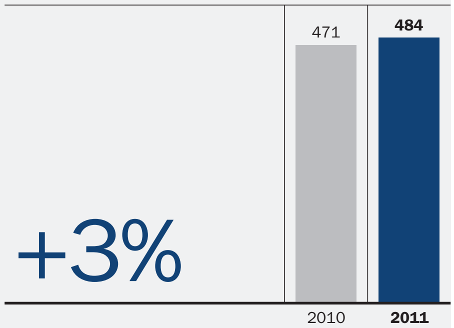
> Invested c. £18m in equipment for Pure Recycling, the acquisition of Beco and additions to our street services and plant equipment

> Awarded three contracts for Homes for Islington to maintain and repair 29,500 properties in the London Borough of Islington

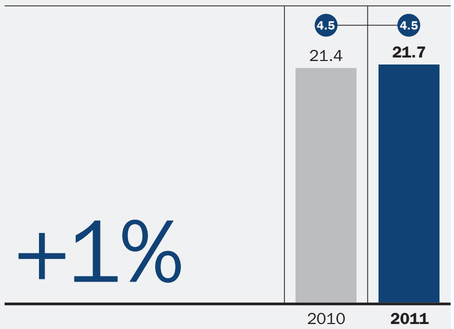
> Operating margin of 4.5% is sustainable and we are seeking improvement as we increase in scale

> PV capability (Beco), 10,000 homes under contract, valued at £30m

Revenue (£m)



Operating profit (£m) **and operating margin** % *



* Before amortisation of intangible assets

Pure Recycling facility, Ettington
Assistant manager Dan Burton is pictured at Kier's materials recycling facility (MRF) at Ettingdon in Warwickshire. The MRF, completed in February 2011, is one of the largest in the UK and one of the most technically advanced facilities in Europe. Complementing Kier's existing relationships with material processing companies across the UK, the MRF is able to process a minimum of 25 tonnes of recycled waste per hour.

Chief Executive's review continued
Kier Services

Plant management
Kier's specialist plant management business hires out equipment from seven depots around the UK to both member companies of the Group and external clients throughout the UK and overseas. The fleet management team offers commercial vehicle solutions from standard panel vans, pick-ups and tippers through to bespoke conversions designed to suit specific needs.

Kier Services
Kier Services comprises five main businesses: Maintenance, which provides both reactive and planned maintenance largely to local authorities and housing associations; Facilities Management (FM), providing services to public and private sector clients; Environmental, offering services for domestic and commercial waste collection and the management and operation of a major recycling facility, street scene and grounds maintenance; Asset Management, which was formerly within the Property division; and Energy Solutions, including our photovoltaic production, design and installation business.

Services business review
Revenue increased 3% to £484m (2010: £471m) with growth, in particular, in Maintenance and Environmental. Operating profit, before deducting the amortisation of intangibles of £3.4m, increased to £21.7m (2010: £21.4m), with a resilient operating margin of 4.5% (2010: 4.5%). Cash balances were healthy at £28m (2010: £32m), underpinning the profit recognition and come after approximately £18m of further investment in Pure Recycling, the acquisition of Beco and additions to our street services and plant equipment.

The order books are at a healthy £2,030m at 30 June 2011 (2010: £2,128m); this figure does not include potential contract extensions, which could add approximately £750m if all were exercised by our customers.

Our Maintenance business saw revenues increase by 2% to £351m (2010: £344m), which highlights the strength of this business given the budget restrictions that are now affecting local authorities. We currently maintain approximately a quarter of a million homes, placing us as one of the largest providers of housing maintenance services in the UK.

We have been successful in negotiating an extension to our partnership with Sheffield City Council, Kier Sheffield LLP, for a further year to 2014, with a value of £64m. We have also secured the remainder of Sheffield City Council's Decent Homes Programme for the three-year period to 2014, with a value of up to £27m over the period.

We were awarded three contracts for Homes for Islington (HFI), the arm's length management organisation (ALMO) for Islington Council. The contracts, to repair and maintain 29,500 properties in the London Borough of Islington, are for an initial four-year period, extendable up to ten, and all commenced in October 2010. This contract with Islington Council was first secured in 2000 and, therefore, represents our first 're-win'.

Having been re-awarded a £20m responsive repairs contract with Ealing Council over five years, we have also secured a £60m partnership with Gosport Borough Council for ten years, extendable for a further five years, and have secured valuable framework positions with EMPA, Riverside Group and North Bransholme for the next four years.

The Facilities Management business generated more than £100m of revenue in the year and was successful in renewing key contracts of approximately £30m including Surrey County Council, Sussex Police and London Fire Brigade and adding new customer contracts of almost £20m.

Our Environmental business has been awarded several significant contracts, valued in aggregate at more than £150m. An eight-year contract, with a potential eight-year extension, for North Norfolk District Council and the Borough Council of King's Lynn and West Norfolk, serving 240,000 homes, and a seven-year contract for East Northamptonshire serving 37,600 homes, were also awarded. In addition, we have secured a £48m waste and recycling services contract for London Borough of Waltham Forest for eight years, with the potential to increase to £90m with extensions.

Our new Pure Recycling materials recovery facility (MRF) in Ettington, Warwickshire officially opened for business at the end of February 2011. The MRF is licensed to process 150,000 tonnes of mixed dry recyclable materials a year, and is one of the largest in the UK. The completion of the MRF is an important milestone for our Environmental business and we already have contracts to process dry recyclables for 80,000 tonnes per annum. With councils committed to meeting increasingly demanding recycling targets over the next few years, the MRF offers a fully integrated waste and recycling collection solution.

The newly formed Energy Solutions business, strengthened by the acquisition of Beco in November 2010, has provided a stronger platform to enter the energy solutions marketplace. This business, together with the Maintenance business, has secured several contracts in the year covering up to 10,000 properties (£30m) in North Tyneside, Stoke-on-Trent and Harlow, the latter where we are delivering a funded photovoltaic scheme onto 1,200 rooftops of council housing stock. The business has identified a good pipeline of opportunities in the retrofit social housing market, which will utilise the combined strengths of the Maintenance business and the structured finance business.

Services markets and outlook

As expected, levels of activity have been subdued over the past 12 months. However, we are seeing an increasing number of outsourcing opportunities as both the public and registered provider sectors, in particular, seek to alleviate cost pressure and examine their current service delivery requirements. We anticipate that this increase in activity will translate into revenue growth for the division in the year to June 2013.

Our order book in the Services division is at a healthy level of £2.0bn, giving good forward visibility of workload, coupled with a strong pipeline of further opportunities. We expect our operating margins to be maintained at a resilient 4.5%.

The Maintenance business continues to offer best value solutions for clients through proven partnership and provides long-term visible revenues to 2020 and beyond at strong, consistent margins. These long-term contracts and partnerships allow us to expand our activities through the involvement of other Group businesses as our clients and partners seek a one-stop, integrated delivery model to service their businesses, a model that we are well placed to deliver.

The cost pressures on local authorities are also leading to increasing opportunities for us in the waste collection and street scene market where we have seen considerable success this year and remain optimistic about growth. The private sector is also examining its cost base and is demonstrably outsourcing more of its non-core activities. Our diverse offering, covering both hard and soft FM, is doing well but we consider it would benefit from greater scale in the premium office and retail market. This remains a key focus for us in the coming years.

1. Street services, Norfolk
Mark Rule at work in Norfolk where Kier is providing street services for various councils under an eight-year contract that carries the possibility of extending for a further eight years. Services include waste and recycling collections, street cleaning, grounds maintenance and the cleansing of public conveniences and buildings.

2. Homes for Islington, London
David Bayford in Islington where Kier has been delivering repairs and maintenance services plus gas servicing to the tenants of Islington Council through their arm's length management organisation, Homes for Islington, for over ten years. Kier recently won a contract to continue to provide these services for 29,500 homes managed by Homes for Islington for another 7-10 years.

3. Photovoltaic panels, Nottingham
Solar-powered energy generation is one of the most exciting sustainable energy opportunities for the housing and construction sectors and one of the key ways in which we can help the UK towards its climate change targets. Employees Peter Ward and Wayne Bullement are pictured installing photovoltaic panels in Nottingham. Kier worked in partnership with Eon to install the panels on 600 homes for Nottingham City Homes.

4. Street Services, Norfolk
Ernie Lawrence in Cromer, one of the team delivering under the eight-year contract for councils throughout Norfolk to provide a range of street services. The project is designed to deliver the most efficient service possible, and will see the 180-strong Kier team and their 70 vehicles cover almost 2,500sq km, taking in much of the Broads, Cromer, King's Lynn, Hunstanton and Downham Market among others.

5. Lifts, Sheffield
Kris McGough and Paul Menton at work in Sheffield where Kier designs, supplies, installs, refurbishes and provides a responsive repairs service to lifts and stairlifts. This service is offered to clients in both the public and private sector.

6. City Stewardship Scheme, Sheffield
Working in partnership with Sheffield Homes and CTS Training, Kier's ground-breaking City Stewardship programme provides learning opportunities for teenagers who would not otherwise have the chance to engage in employment or mainstream education. The scheme includes initiatives such as 'target hardening' following house break-ins, where new security devices are fitted, and has resulted in a massive reduction in burglary rates.

Chief Executive’s review continued
Kier Property

Ian Lawson Executive director

The Property division continues to focus on non-speculative projects where we know we can forward sell or pre-let key elements of the schemes, thereby reducing the associated risk and demands on the Group’s cash reserves. Increasingly, we bring together the total skills and expertise across the Group to deliver greater value to our schemes.

Development pipeline

£700m

Over five years, largely pre-let with strong partners

Directors’ valuation of our PFI investment

£38m

(at a discount rate of 7.5%)

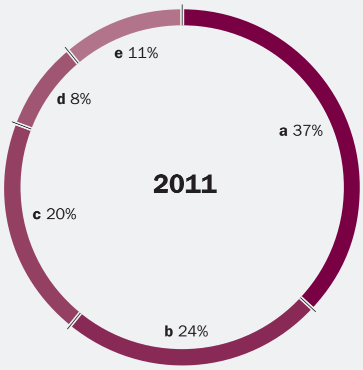
Portfolio of PFI projects

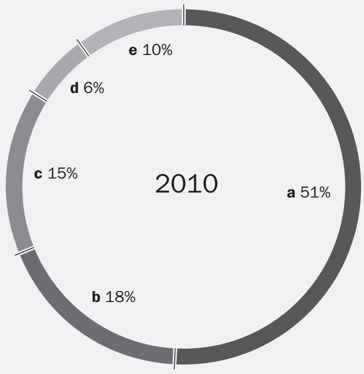
Committed investment in PFI schemes (2011)

£21m

(2010: £28m)

a Education
b Police facilities
c Health
d Local authorities
e Other

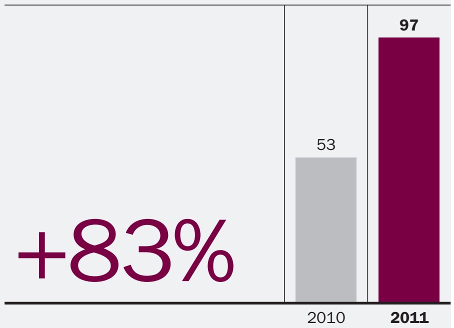




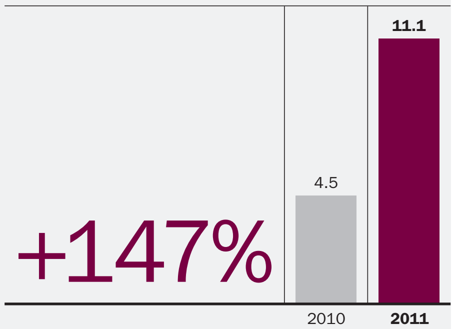
Kier Property highlights

- > £91m acquisition of the property portfolio from Lloyds
- > Shortlisted for five PFI projects valued at £250m
- > Creates annualised £100m construction/FM opportunities
- > Solum Regeneration JV with Network Rail to complete Epsom Station in summer 2012, with Walthamstow, Twickenham and Maidstone East stations to follow
- > Working with National Grid to redevelop a 20-acre site in Sydenham

Revenue (£m)



Operating profit (£m)



6 Cavendish Place, London
Our central London office in Cavendish Place was part of the property portfolio acquired from Lloyds in April 2011 for £91m and was subsequently sold.

Ordnance Survey, Southampton
Kier Property's development to create a new head office at Adanac Park, Southampton for Ordnance Survey. The building has been designed to reflect the image of a 21st-century data provider and to act as a stimulating, positive and modern working environment. The new building comprises a series of three-storey 'fingers' running from east to west with a two-storey business centre at the west side of the building.

Kier Property

University of Reading
Working in partnership with the University of Reading, Kier has constructed the new Enterprise Centre on the University of Reading campus. The new facility offers 55,000sq ft of high-quality space in three- and two-storey blocks linked by a central atrium. The buildings provide flexible new office/research accommodation for innovative and technology-based businesses. The building has been designed to high environmental standards and aims to achieve a BREEAM rating of Very Good.

Kier Property

The Property division comprises two main businesses: commercial, industrial, retail and mixed-use property development and structured property financing (PFI). Both businesses provide significant opportunities for Kier to work with landowners, occupiers and the public sector, and offer innovative property solutions and services to maximise asset values and generate profits.

The Property division continues to focus on non-speculative projects where we know we can forward sell or pre-let key elements of the schemes, thereby reducing the associated risk and demands on the Group's cash reserves. Increasingly, we bring together the total skills and expertise across the Group to deliver greater value to our schemes, and provide a 'One Kier' approach for our clients.

Revenue for the year to 30 June 2011 of £97m (2010: £53m) was 83% higher than that for last year, with operating profit of £11.1m (2010: £4.5m).

Following the acquisition of the property portfolio from Lloyds in April 2011 for £91m, we sold our retail scheme in Chichester and our central London office in Cavendish Place thus raising £26m of cash which offset the initial £35m consideration paid to Lloyds.

In early 2009, we were selected as preferred developer by the University of Reading to deliver its 55,000sq ft Science and Enterprise Centre.

The Construction division undertook the construction works and the project was completed in April 2011. The project was externally funded and forward sold.

Our joint venture with Network Rail, Solum Regeneration, is progressing well. We are on site at Epsom on a £32m mixed-use pre-let scheme with completion due in the summer of 2012. Construction is due to commence at Walthamstow for a similar scheme in October 2011 and we are at an advanced stage of the planning process on the Twickenham and Maidstone East redevelopments worth a combined £107m. A testament to the strength of the partnership is reflected in the additional schemes added to the portfolio with a total development value of approximately £500m.

As part of our strategy to work closely with large landowners, at Sydenham we are working with National Grid on a 20-acre site for warehouse and industrial development. Pre-let terms are being agreed with several large retailers and work on site is forecast to start in early 2012, with Kier undertaking the construction work. This form of alliance, similar to Solum Regeneration, is a key area of focus for this division.

During the year, in our Structured Finance business, we continued our strategy of selectively disposing of mature PFI investments from our portfolio. We disposed of three of our investments, Norwich, Oldham and Sheffield Schools, for a combined value of £13.7m, representing a valuation discount rate of around 7%. Whilst Norwich and Oldham were sold to an external buyer, due to pre-emption rights, our investment in Sheffield was transferred to the Kier Group Pension Scheme at its market value of £4.5m. Over time, we expect to offer further PFI assets to this pension scheme as part of the pension deficit recovery plan. We believe that these assets, with their long-term cash flows, are well suited to the pension scheme.

The construction of the £60m Norfolk and Suffolk Police Investigation Centres scheme is now nearing completion and, in March 2011, we achieved financial close on the £22m Gloucester Fire project, which is now under construction. In addition, we are short-listed on a further five projects with a combined value of approximately £250m.

Our portfolio of PFI projects following the disposals during the year now totals ten. Our full equity investment in these schemes amounts to £21m (2010: £28m) of which £16m has been invested to date. The directors' valuation of our investment at a discount rate of 7.5% is £38m. Our Structured Finance business continues to seek new opportunities by applying its investment and finance structuring skills to a broad range of schemes such as social housing, residential regeneration and student accommodation.

Property markets and outlook

The division continues to focus on expanding its portfolio to contribute an increasing proportion of the Group's results. We continue to look at innovative funding routes to support our growth and make the best use of our cash reserves.

We have recently strengthened and expanded our team to increase our focus in the west and north of England with the aim of providing additional work across the Group in these locations.

The Property business is set to deliver continued profit growth over the next few years with many of its schemes already identified and secured. We therefore remain confident in our business strategy of acquiring development opportunities in well-located and marketable areas with significant potential for occupier led, pre-let or forward sale solutions.

1. Epsom Station redevelopment
Network Rail and Kier Property have formed a joint venture, Solum Regeneration, to redevelop stations in the south-east and London. As part of the project, Kier Construction is undertaking the building and civil engineering works for a mixed-use scheme to deliver improvements to Epsom Station and provide retail space, a hotel, parking and 124 high-quality apartments.

2. Natural Environment Research Council, Oxfordshire
This design and build project for a new research facility in Oxfordshire for the Natural Environment Research Council consists of new laboratories and office facilities for the Centre for Ecology & Hydrology. The centre accommodates a variety of high-grade research functions as part of an annex to the existing main building. The building achieved a BREEAM Excellent rating.

3. Police Investigation Centre, King's Lynn
Kier was commissioned to build the Police Investigation Centre at King's Lynn for the Ministry of Justice as part of a £60m scheme to design and build six police investigation centres across Norfolk and Suffolk. The project was built on the outskirts of King's Lynn and includes 24 cells, holding areas, interview rooms, forensics, a medical centre and offices.

4. Twickenham Station
A computer generated image of Twickenham Station – one of several stations in the south-east and London that are the subject of redevelopment by Solum Regeneration, a joint venture between Network Rail and Kier Property.

Kier Homes

Ian Lawson Executive director

Through our partnerships with key public housing funding bodies and registered providers of affordable housing, and working with our investment and development specialists within the Group, we are well positioned to provide a comprehensive delivery solution to the UK's current housing challenges.

Land bank (book value)

£159m

(2010: £214m)

Land bank (units) with planning consent

4,800

(2010: 5,700)

Homes delivered

998

(2010: 1,060)

Kier Homes unit sales

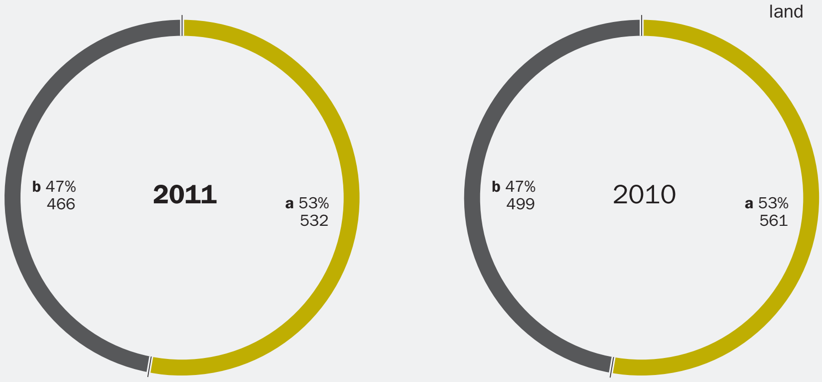
Total units 2011

998

Total units 2010

1,060

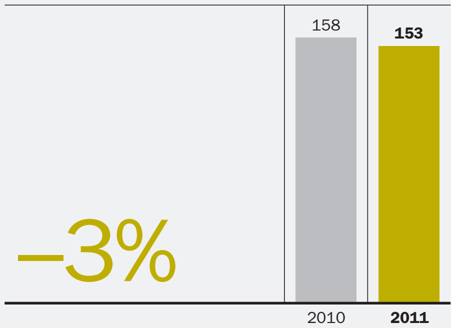
a Affordable homes and mixed tenure
b Private homes on Kier-owned land



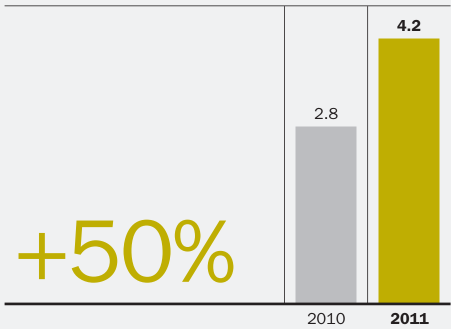
Kier Homes highlights

- > Secure and probable pipeline of c.1,700 affordable homes
- > Affordable Homes Programme's grant of £12.5m will help us deliver over 1,000 new affordable homes
- > Private homes: £20m (350 plots) land sales completed on deferred cash terms
- > Will maintain a 500 to 600-unit private homes business

Revenue (£m)



Operating profit (£m)*



* Excluding 2010 one-off land transaction profit of £7.1m

Midsummer Project Cambourne, Cambridgeshire
Kier Homes' Midsummer project is a select development featuring executive homes located within the new town of Cambourne, Cambridgeshire. The carefully designed new homes offer spacious living with five-bedroom homes and three-bedroom bungalows located in an enviable position between an eco wildlife park, school playing fields and country park.

Kier Homes

Kier Homes provides mixed tenure and affordable housing, specialising in urban regeneration with the skills and experience to deliver innovative and environmentally sustainable construction and finance solutions. These include leveraging multiple funding and investment sources and providing cross-subsidy options. We have reduced the scale of our private sales operation to maintain a stable 500 to 600-unit per year business focused on the south-east and East Midlands area.

Homes business review

There remains uncertainty in the housing market although a modest demand for newly built homes supported an improved underlying performance for the year for the Homes business.

In the private sector, the housing market continues to be constrained by the lack of mortgage availability, which is affecting housing demand throughout the country. In the affordable housing sector, following the Government's Comprehensive Spending Review, the change from social rent to an affordable rent structure will transform the way that affordable housing is financed.

Overall, we completed 998 units this year (2010: 1,060) a similar mix to last year, with 466 arising from private development sales and 532 through affordable housing sales (2010: 499 private and 561 affordable homes).

These unit sales, together with land sales, generated revenues of £153m (2010: £158m) and operating profits improved to £4.2m in 2011 (2010: £2.8m excluding Homes land transaction).

Our cash investment in this division has slightly increased to £259m (June 2010: £248m), reflecting the settlement of deferred land payments, which have now been made in full, increased investment in work in progress on apartment schemes, which have a different cash profile to a typical housing scheme, partially offset by the first instalment proceeds on land sales.

The instalments represent part of a committed £20m (350 plots) of completed land sales on deferred cash terms. Having completed these sales, and following a review of our land and work in progress, we have written down the value of our land and work in progress and it now better reflects our strategy for the private housing business and the current market conditions. Whilst it remains our intent to sell further land over time, we do not anticipate realising profit from these transactions, the emphasis being on cash generation.

Our land bank at 30 June 2011 is carried at a value of £159m (June 2010: £214m), after the current year's write-down and is represented by 4,800 plots (2010: 5,700 plots), all with planning consent. Our strategy to position our land bank so that it supports a 500 to 600-unit business continues with the aim of having a land bank equivalent to approximately four to five years' supply. This will release cash, which is available for investment in the Group's future growth. All new housing is being built primarily on land acquired prior to the market correction in 2008 and we therefore anticipate modest margins through this business over the next few years.

Housing Association Registered Providers (HARPs) have responded positively to the challenge of funding future development using an affordable rental income stream to leverage finance and a strong pipeline of development opportunities, to be delivered over the next four years, is emerging.

Through our partnerships with key public housing funding bodies and registered providers of affordable housing, and working with our investment and development specialists within the Group, we are well positioned to provide a comprehensive delivery solution to the UK's current housing challenges.

Our membership of the HCA DPP framework continues to provide a steady supply of public sector land for the development of affordable and mixed-tenure housing. All of these types of projects involve free land provided by the HCA; one such example is our development at Balaam Wood, Egg Hill, which has progressed well and we have delivered our first sales reservations alongside the affordable housing on the site.

Homes market and outlook

Our strategy continues to focus on reducing the cash investment in our land bank by developing homes for sale, or disposing of parts of the land bank as opportunities arise. The private homes market remains challenging, as mortgage finance still requires significant deposits, and there remains a low level of public confidence given the current economic conditions. We therefore expect overall private sales for the year to 30 June 2012 to be at a similar level to those for this year at this stage.

Our focus is the development of mixed-tenure affordable housing through our well-established relationships with local authorities and housing associations. In the recent allocation of AHP funding, we were delighted to receive the entire allocation of grant requested (£12.5m) which will help us deliver in excess of 1,000 new affordable homes alongside our HARPs over the next four years. This excellent result combined with our relationships with our framework partners and our position on the HCA DPP set us well to exploit opportunities in the affordable housing market in the medium term.

We will remain flexible and responsive to the uncertain private housing market and will pursue growth in our affordable housing business and the opportunities that it presents.

Five Islands School, Isles of Scilly (above and below)
Kier's design & build project at Five Islands School has been extremely complex and demanding logistically. The company topped out the project this spring, marking the milestone in the construction programme by guiding the new bell tower into position on the roof. HM The Queen took a tour of the school, which Kier completed a month ahead of programme, during her first visit to the Isles of Scilly in 44 years. Site engineer Stephen Payne is pictured above.

Health and safety

Our focus continues to be on our Health and Safety Leadership and Behavioural Safety Programme, which is now firmly embedded within the Construction division and is being rolled out across the Group. This programme focuses on encouraging active discussions with the workforce on health and safety issues, with in excess of 41,000 discussions recorded during the year, a 66% increase on 2010.

Our future focus will encompass all health, safety and environmental issues to ensure we fully support the Group's sustainability aspirations. A long-term programme of health and well-being is currently being developed across the business to ensure that health is an integral part of the safety, health and environment culture.

The commitment of our management teams and our supply chain partners has resulted in a further reduction in our accident incident rate (AIR) from 312 in June 2010 to 300 in June 2011; this is significantly lower than the current Health and Safety Executive benchmark rate of 736. These positive results continue to focus and motivate all of us on a safety first culture.

Reflecting this outstanding performance, Kier projects were awarded 42 national awards by the Considerate Constructors Scheme in recognition of the standards we set ourselves. We also received five Royal Society for the Prevention of Accidents (RoSPA) President's Awards and five RoSPA Gold medals, in recognition of ten consecutive years of Gold Awards.

People

During the year, we were active on over 330 construction projects across the UK, were responsible for approximately 250,000 homes and 7,000 commercial premises and built 1,000 new homes. All of our people, across the UK and overseas, have worked hard this year to produce these results.

It is a sign of our professionalism that time after time our projects are delivered to programme, on budget and to great quality. I am continually impressed by the quality and professionalism displayed by our people and the tremendous effort that goes into all of the work that we do.

I am proud to represent Kier, and of the great work our teams deliver in the communities they represent. I am delighted to announce this year that we are establishing a charitable trust, the Kier Foundation, to provide a more coordinated approach to the huge amount of time and financial support we put into our communities. This will enable us to better manage our corporate giving and to generate further value in the areas in which we participate.

Finally, I would like to thank all of our people at every level throughout our many businesses for their continuing support and contribution to the continuing success of the Group. Whilst I expect 2012 to be challenging, I am confident that our teams will meet that challenge as they have done so consistently in the past.

Markets and prospects

The year to 30 June 2011 has been busy for all our businesses in bidding for work in an increasingly competitive environment. The requirements from our clients for 'bundled services' has required all our teams to rethink and re-engineer the way we bid and deliver our work.

The next 12 months will remain challenging as the reduction in government spending continues to affect levels of construction and services activity. Low levels of public confidence and therefore uncertainty will affect the private housing market.

The Group, with its diverse set of capabilities, is able to respond to the changing market and position itself in those areas where there is most opportunity for growth. This is evident in our Construction division by our move away from public sector work and into the private sector whilst growing revenues.

We are encouraged by the prospects we see in the economic infrastructure markets such as power, transport and waste, both in the UK and overseas, and in improving social infrastructure sectors such as affordable housing, mixed-use regeneration and commercial projects, predominantly in the south-east.

Our Services division is beginning to see larger opportunities come to market as local authorities out source different bundled services, and our Property division is in a strong position to expand its portfolio and seek non-speculative schemes in the medium term.

Our Construction and Services order books of secure and probable contracts are robust with many of the construction awards having been secured through frameworks and collaborative agreements, providing us with confidence that we can sustain good operating margins and strong cash flows.

Our integrated business model continues to present opportunities across a wide range of sectors, right across the country, which will provide greater resilience during the current challenging economic environment. Our strong balance sheet will inevitably be seen as increasingly important as customers scrutinise the strength of their chosen partners.

We remain a robust and sustainable business, with committed and professional staff in whom we have confidence and their abilities will underpin further progress by the Group in the new financial year.

Paul Sheffield
Chief Executive

King's Mill Education Centre
Kier's project to provide specialist teaching facilities at King's Mill Hospital Education Centre comprised reconfiguring wards and constructing a new lecture theatre. The building was also extensively refurbished to create a fire escape stairwell, double lift, offices, café and reception. Working in a live environment, the team met regularly with the client and estates department to discuss the programme and adapt it according to the hospital's activities.

Halving Waste to Landfill

Kier has committed to the 'Halving Waste to Landfill' initiative by WRAP.

Corporate responsibility

The Group has made remarkable progress in managing and improving our corporate responsibility (CR) activities in the year to 30 June 2011. A full 'Corporate Responsibility Report 2011' will be posted on our website (www.kier.co.uk/responsibility) but a summary report here describes our CR governance during the year and some headline achievements.

iConnecting
During the year a series of workshops were held with all iConnecting users to develop this new web-based tool for gathering and evaluating our CR activities within the Group.

Our CR programme is reported and based upon the broad framework provided by the BITC CR Index with the added industry-specific Considerate Constructors Scheme requirement.

The performance and reporting of the Kier Group CR programme is benchmarked against our competitors and customers through the annual Business in the Community (BITC) CR Index. This index assesses how we address sustainability throughout the business, specifically concerning the environment and climate change, health and safety, employee relations and training, business ethics, customer satisfaction, supply chain management and community engagement. Most importantly, the index enables us to identify areas of weakness which we can address for ongoing improvement.

In order to ensure that our CR programme is constantly reviewed, managed and improved year on year, we established a target in 2010 to achieve 90%, or Gold status, within three years, benchmarked against our 2010 CR Index score of 78.2%, Bronze status. We were therefore pleased that in this first year, by working closely with the BITC team, we achieved a score of 85%, Silver status, in the 2011 BITC CR Index.

Having commissioned a full feedback report from BITC on our CR Index results for 2011, we have identified the management of our community engagement, our environmental data and our approach to equality, diversity and inclusion as key areas to improve in the next year. These issues are all being addressed by the Group CR Steering Committee.

A summary of our CR performance and key activities is shown on pages 32 and 33. Other key issues concerning our CR programme in the year are as follows.

Governance and audit
The Group CR Steering Committee (see membership list on page 33), chaired by Paul Sheffield, chief executive, met four times in the year to 30 June 2011.

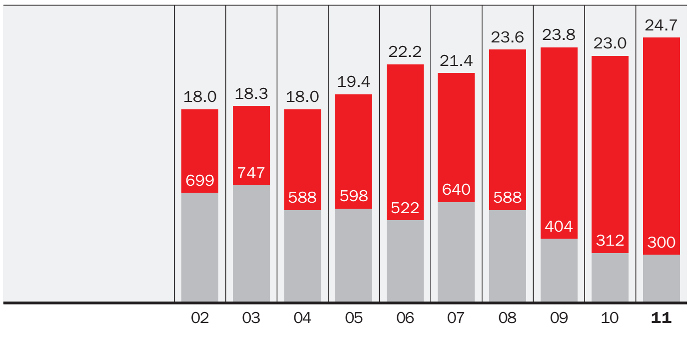
A report from each meeting of the committee was then placed on the agenda for the full Group Board meetings held in August and November 2010, and February and May 2011.

The main issues covered in the CR reports to the Board in the year have included:

- BITC CR Index survey results, targets and actions
- 2010 and 2011 Carbon Disclosure Project submissions
- Carbon Reduction Commitment and the Climate Change Act 2008
- Business ethics and code of conduct
- Bribery Act 2010 and issues concerning e-training and awareness campaigns across the Group
- Waste data collection and target performance
- Equality, diversity and inclusion policies and actions
- Community engagement and the creation of The Kier Foundation as a charitable trust
- The web-based iConnecting CR data collection and performance tool initiative
- The Considerate Constructors Scheme monthly performance data and targets
- Feedback from shareholders on CR issues
- Audit for the Group CR report
- Apprenticeship scheme initiatives across the divisions
- Liaison with national charities
- Annual Report & Accounts CR section

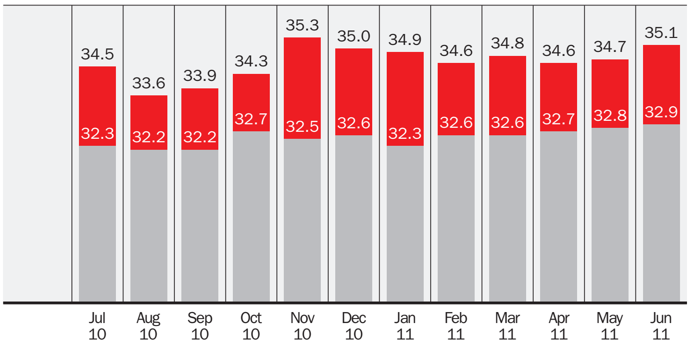
During the year we entered into dialogue with our Group auditors, KPMG Audit Plc, with regard to auditing our CR Report and associated CR data collection and verification. We have now engaged KPMG to work with us on this CR Report, to analyse our data collection processes and existing third-party verification where applicable and to advise on the establishment of appropriate mechanisms and structures for our 2012 CR Report.

AIR v manpower ten-year chart



End of June average manpower (000s)
End of June AIR

Considerate Constructors Scheme by month (July 2010 to June 2011)



Kier average (marks out of 40)
Industry average (marks out of 40)

The intention is for KPMG to undertake a first audit of our CR Report in the year ending 30 June 2012.

The Kier Foundation and community engagement

Kier employees and our individual business units have exemplary community engagement activities across all the Group's locations throughout the UK and overseas. However, in order to properly and professionally quantify what we do in our communities, we now collect data on our direct impact upon these communities (fundraising data, sponsorship, man-hours donated and working with schools or charitable organisations). To this end, we have been establishing a web-based performance analysis and reporting system across the Group under the 'iConnecting' initiative. This was rolled out in January 2011 and data collection recorded across the Group for the first time for the financial year to 30 June 2011 (see summary table on pages 32 and 33).

Now that we have been able to access and analyse our community engagement activities more robustly, the CR Steering Committee is determined to improve the focus and management of our Group community engagement without in any way compromising the ongoing good work undertaken locally by our businesses wherever they operate among their closest communities.

After researching this issue and debating it at both the CR Steering Committee and at Board level, we have now launched The Kier Foundation, a charitable trust formally registered as a charity through which we can funnel and focus financial support to good causes and the community activities of our employees wherever they are. The Kier Foundation will be managed by Trustees and a fund established from both Group resources and voluntary employee subscriptions.

A coordinator for The Kier Foundation is to be appointed to manage the activities and funding opportunities arising.

As part of the The Kier Foundation initiative, the Board will establish a formal relationship with a national charity on an annual or two-year basis through which the Foundation can channel and share resources, as well as helping deliver tangible projects and activities by the Group employees and businesses nationwide.

Considerate Constructors Scheme

As well as assessing our CR performance through the BITC CR Index's five main areas (environment, health and safety, employees and training, customers and supply chain and community engagement), we also benchmark our industry-specific and operational project-based CR performance against the monitoring and reporting system of the Considerate Constructors Scheme (CCS).

We were very pleased to be awarded an exceptionally high number of CCS National Awards in 2011. Since becoming an Associate Member of the CCS Scheme in 2008, our National Awards have risen from eight in 2008 to 21 in 2009, 29 in 2010 and a remarkable 42 in 2011. This number of awards significantly exceeds the total National Awards achieved by any of our competitors in the CCS scheme in 2011.

Our average Group monthly scores in this scheme judged under eight categories (including, safety, cleanliness, environment, good neighbour and respectful) also improved during the year from 34.30 out of 40 in 2010 to 34.63 in 2011.

Carbon Disclosure Project

Kier participated in the 2010 Carbon Disclosure Project (results announced in September 2010) and our Carbon Disclosure Leadership index score of 77 put us in the top 10% of the FTSE 350 in respect of carbon disclosure. We have participated in the 2011 Carbon Disclosure Project and the results, when announced in October 2011, will be posted on our website at www.kier.co.uk/responsibility.

Our CR vision

Kier – delivering a brighter future for our communities

The Kier Group vision is 'to be the most highly respected company in the industry'. To achieve this vision we have to build, maintain, protect and enhance our reputation among our employees, customers, supply chain partners, investors and, particularly, the communities in which we live and work. Supporting this reputation and encompassing our responsibilities towards the environment, society and governance, our corporate responsibility vision is: 'Kier – delivering a brighter future for our communities'.

construction news awards 2011 FINALIST IN ASSOCIATION WITH depa

For the second successive year Kier was a finalist in the Construction News Awards 'Sustainability' category.

Corporate responsibility
continued

This summary performance table has been based broadly on the BITC CR Index sectors of management practice used to benchmark, monitor and report on CR.

Silver status

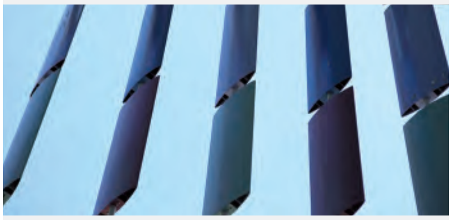
85%

Business in the Community CORPORATE RESPONSIBILITY INDEX 2011

(2010: 78.2% Bronze status)

The Group participated in the 2011 BITC CR Index, achieving 85% (Silver status), up from 78.2% in 2010 (Bronze status)

Environment & climate change



Performance commentary

- Kier has entered into a partnership with the RSPB to identify opportunities to enhance biodiversity on our construction projects
- Green Apple Awards for the Built Environment 2011
  – Open Academy, Norwich – Gold Award
  – British Horse Society HQ, Stoneleigh – Gold Award
- Green Apple Awards for Environmental Best Practice 2011
  – Kier Build: Back to Basics – Pollution Prevention
  – Kier Eastern: Car Smart Scheme
  – Kier Eastern: Bird Boxes Project (in conjunction with the RSPB)
  – Kier Northern: Seeing the Light – Site Electrics
  – Kier Sheffield: Sustainable Waste Management
- Participated in the 2010 Carbon Disclosure Project and our leadership index score of 77 put us among the top 10% of the FTSE 350 in respect of carbon disclosure. We participated in the 2011 CDP

Key performance indicators

- Group's UK scope 1 and 2 carbon emissions for 2010 (including mining) increased to 75,009 tonnes (2009: 71,570 tonnes) but intensity decreased to 34.6 tonnes CO_2/£m revenue (2009: 35.7 tonnes CO_2/£m revenue). This represents an overall Group reduction of 3.1% against our target for 2010 (excluding mining) for a 10% reduction. A more realistic target of 3.0% reduction is set for 2011
- Construction, demolition and excavation (CDE) waste generated by the Construction division(excluding Scotland) rose to 48 tonnes per £100,000 revenue (2009: 45 tonnes/£100,000) but the CDE waste diverted from landfill was up from 64% in 2009 to 72% in 2010. The target is to halve waste to landfill by 2012 from the 2008 baseline (45%)

SMARTWaste data for how waste has been managed:

Reused	Recycled	Recovered	Disposed
34%	27%	10%	29%
(2010: 41%)	(2010: 17%)	(2010: 10%)	(2010: 32%)

Workplace
Health & safety

Performance commentary

- AIR
  – Kier: 300 per 100,000 staff and subcontractors (2010: 312)
  – HSE benchmark: 736 per 100,000 staff and subcontractors (2010: 782)
- Site Supervisors Safety Training Scheme (SSSTS) continued from previous years with a further 31 courses completed by 78 employees (2010: 72) and 292 supply chain supervisors (2010: 598)
- Safe and UnSafe Acts (SUSA) initiative had a further 1,255 delegates attending workshops (2010: 1,938)
- Occupational Health – Roadshows have continued with focus on noise & hand arm vibration (HAV)

Key performance indicators

AIR Kier	AIR HSE
300	736
per 100,000 staff (2010: 312 per 100,000)	per 100,000 staff (2010: 782 per 100,000)

RoSPA/British Safety Council Awards

Award	2011	2010
RoSPA President's Award	5	4
RoSPA Gold Medal	5	5
RoSPA Gold	15	10
RoSPA Silver	2	2
RoSPA Bronze	0	1
British Safety Council National Award	13	12

Workplace
Employees & training

Performance commentary

- 879 employees in registered development programmes (2010: 890)
- Over 30 new e-learning modules published
- Launch of the site managers technical academy – the Residential Business Programme
- Launch of the Kier Construction Team Leader apprenticeship
- Development of the Kier Services Foundation Degree programme

Key performance indicators

Craft apprenticeships	Foundation degree
261	99
(2010: 210)	(2010: 79)

Number of employees in registered development programmes

	2011	2010
Day release and FE students	154	180
Craft apprenticeships	261	210
Foundation degree	99	79
NVQ accreditation – plant operatives	26	8
Construction management NVQs	64	70
Sponsorships	56	82
Graduate schemes	219	261
Total	**879**	**890**

Summary performance

Corporate Responsibility Steering Committee members

Paul Sheffield (Chair)
Chief Executive, Kier Group

Jackie Ducker Kier Services	**Alan Smith** Kier Group
Chris King Kier Homes	**Nigel Turner** Kier Property
Neil Meixner Kier Construction	**Steve Underwood** Kier Construction
Hugh Raven Kier Group	**Andrea Walton** Kier Group
Carol Simmonds Kier Construction	**Sharon Clark (Secretary)** Kier Group

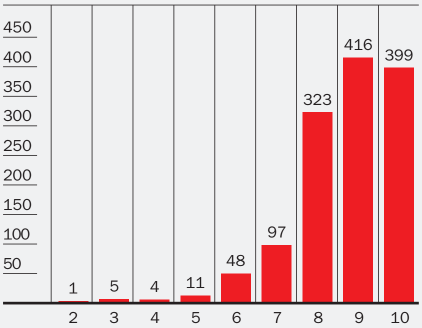
Marketplace
Customers & suppliers

Performance commentary

- Kier has rolled out a comprehensive training and awareness programme to ensure the highest ethical standards are maintained and full compliance with latest governance legislation (The Bribery Act 2010)
- Kier has been independently recognised as having already met and exceeded many of the targets set for industry within the Strategic Forum for Construction's 2012 Construction Commitments
- Kier has been independently audited by Achilles and awarded level 5 compliance under the Building Confidence supplier evaluation programme
- Kier's Construction division carried out 1,304 customer satisfaction surveys throughout the UK with 1,138 (87%) of those results exceeding 80% satisfaction and 30% giving us perfect scores*

Key performance indicators

***Analysis of customer satisfaction scores**
(June 2010 – July 2011)



Population analysis – Count of scores awarded

Community engagement

Performance commentary

- The Kier Foundation is in the process of being created as a registered charity established and funded by the company and through which much of the Group's community engagement will be channelled and supported in future
- Through the community programmes we have "impacted or touched" 33,000 people
- Kier has provided 9,271 people with 223,000 hours of workplace experience, careers advice and training through NEET and other activities
- We believe that this represents an equivalent investment in cash terms in excess of £6.77m in the year to June 2011
- Kier has entered into a partnership with Construction Skills to develop a programme which will deliver 100 construction team leader apprentices per annum across all disciplines
- Kier has rolled out iConnecting, its web-based engagement tool and as a result has been able to capture the majority of its community impact†

†Key performance indicators

Time given for community engagement activities

154,000
Man-hours
(2010: 8,522)

Direct cash donations to charities in the UK

£0.60m

Equivalent value of man-hours

£6.77m

Total monies raised and value of man-hours

£7.37m

Considerate Constructors Scheme (CCS)

Performance commentary

- Monthly average CCS score for Group achieved four record highs in this financial year with the highest being 35.31 out of 40.00 in November 2010
- CCS National Awards won by Kier projects up from 29 in 2010 to 42 in 2011 (significantly more than any other member of the CCS Scheme) including five gold and 19 silver awards
- Overall Group monthly average up to 34.63 (2010: 34.30) and points exceeding the national average reached 2.25 (2010: 2.31) against our target of 2.40, reflecting greater improvement across the industry. Target for 2012 to return to 2.30
- Monthly statistics on performance are updated monthly on the Kier website and intranet, in addition to comprehensive bi-annual reviews produced and distributed throughout the Group

Considerate Constructors Scheme

Average Group monthly score out of 40

34.63
(2010: 34.30)

CCS* National Awards

42	Total (2010: 29)
5	Gold (2010: 2)
19	Silver (2010: 10)
18	Bronze (2010: 17)

* CCS is scored against the following 8 categories: safe, a good neighbour, considerate, respectful, responsible, cleanliness, accountable, environment

Financial review

Haydn Mursell
Finance Director

Profit before tax* was 24% ahead of last year at £68.9m, supported by a strong cash performance with average Group month-end net cash of £129m (2010: £95m).

Revenue

£2,197m

(2010: £2,099m)

Profit before tax*

£68.9m

(2010: £55.5m**)

* Before exceptional items and amortisation of intangible assets
** Excluding Homes 2010 one-off land transaction profit of £7.1m

Net Cash

(at 30 June 2011)

£165m†

(2010: £175m)

† After investments of approximately £50m during the year in the growth of the Group

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

Accounting policies

The Group's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. Except as stated below or in the disclosures in note 1 to the consolidated financial statements, there have been no significant changes to the accounting policies adopted by the Group during the year to 30 June 2011.

During the year, in our Structured Finance business, we continued with our strategy to regularly dispose of our mature PFI investments from our portfolio and recycle the capital. The profit on disposal has previously been disclosed as an exceptional item; however the directors believe this presentation is no longer appropriate, as they are now expected to be recurring items, and have included the profit on disposal in the operating profit for the year to 30 June 2011. The 2010 comparative figures have been restated accordingly.

Financial performance

	2011 £m	2010 £m	% change
Revenue: Group and share of joint ventures	2,179	2,099	+4%
Operating profit: Group and share of joint ventures*	71.1	57.7**	+23%
Profit before tax*	68.9	55.5**	+24%
	p	p	
Earnings per share*	148.4	117.7**	+26%
Dividend per share	64.0	58.0	+10%
	£m	£m	
Average month-end net cash balance	129	95	+36%

* Before exceptional items and amortisation of intangible assets
** Excluding Homes 2010 one-off land transaction profit of £7.1m

Revenue has increased by 4% (£80m), predominantly through organic growth; however, the acquisition of Beco Limited (Beco) in November 2010 and the early sale of two properties from the property portfolio acquired from Lloyds, in April 2011, have contributed a combined £18m of that amount. Underlying growth, excluding the 2010 land transaction in the Homes division, is spread across all four divisions, which reflects the strength and depth of the Group's activities.

Operating profit including joint ventures, before the amortisation of intangible assets, was 23% ahead of last year at £71.1m with operating margins of 2.7% in our Construction division, up on 2.6% in 2010, and good, consistent margins in our Services division of 4.5% (2010: 4.5%). The Homes and Property divisions also saw an increase in underlying operating margins. Detailed information on the operating performance of each of the divisions is provided within the Chief Executive's review.

The Group's net finance cost, analysed below, includes interest receivable arising from average net cash balances of £129m for the year (2010: £95m). The increase in interest payable includes the fees following the increase and renegotiation of our banking facilities.

Year to 30 June	2011 £m	2010 £m
Group interest receivable	3.7	3.1
Interest payable	(2.7)	(2.2)
Unwinding of discount on long-term liabilities	(1.5)	(1.9)
Share of joint venture interest	(1.4)	(1.3)
	(1.9)	**(2.3)**

Profit before tax, amortisation of intangible assets and exceptional items increased by 24% to £68.9m (2010: £55.5m**). This includes a joint venture tax charge of £0.3m (2010: credit of £0.1m) and is stated before minority interests of £0.5m (2010: £0.8m). The minority interest relates to the share of profits of our Maintenance business which are attributable to contracts it has with local authorities.

The Group's effective tax rate, including joint venture tax on joint venture profits, has reduced from 21% last year to 19% mainly as a consequence of the increase in the profit on disposal of the PFI investments and the reduction in the standard corporation tax rate.

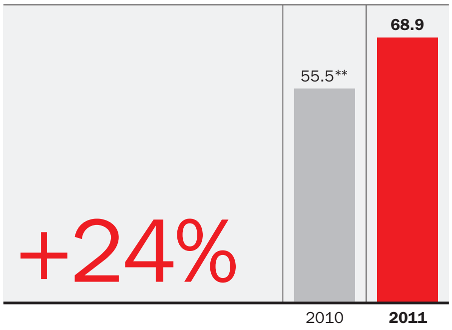
Earnings per share before amortisation of intangible assets and exceptional items was 26% ahead of last year at 148.4p (2010: 117.7p**), benefiting from the reduction in the effective tax rate.

Exceptional items

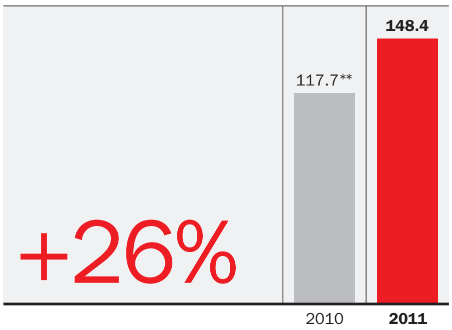
Exceptional items amounted to a net credit before tax of £7.0m, as follows:

	£m
Pension credit arising from changes to the Kier Group Pension Scheme	25.7
Reduction in the provision in respect of the OFT fine and associated costs	15.6
Write-down of land and work in progress	(33.5)
Acquisition costs	(0.8)
Total exceptional items	**7.0**

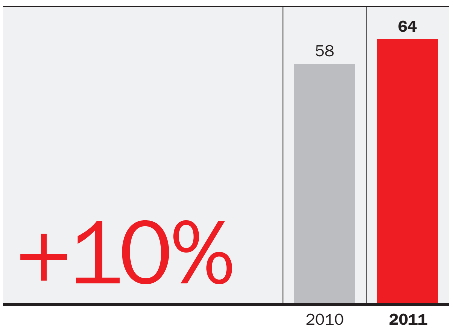
Profit before tax (£m)*



Earnings per share (p)*



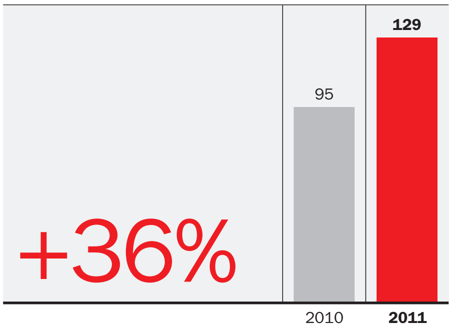
Dividend (p)



* Before exceptional items and amortisation of intangible assets
** Excluding Homes 2010 one-off land transaction profit of £7.1m

Financial review
continued

Average month-end net cash (£m)



Net assets
(at 30 June 2011)

£164m

(2010: £104m)

The £25.7m credit in the income statement and corresponding improvement in the funding position of the Kier Group Pension Scheme (the Pension Scheme) has arisen from changes announced in the 2010 Budget which apply to private sector pension schemes. These changes will result in future pensions increasing at the rate of the Consumer Price Index (CPI) rather than at the Retail Price index (RPI) and, therefore, reduce pension scheme liabilities.

On 22 September 2009, Kier, along with 102 other construction companies, was fined in respect of the OFT investigation into cover-pricing in the construction industry. We appealed against the quantum (£17.9m) of the fine and established an exceptional provision of £18.0m in 2010. In May 2011 the Competition Appeals Tribunal concluded the appeal process and the quantum of the fine was reduced to £1.7m. The resulting £15.6m exceptional credit reflects the reduction in the fine and £0.7m of external costs incurred in relation to the appeal process.

As a result of the values received from a number of land sales during the second half of the year and following a review of our land bank, we have written down the value of our land and work in progress by £33.5m. It now better reflects the current market conditions and our strategy to downsize our land bank and maintain a 500 to 600-unit private housing business.

We have incurred external costs relating to the acquisitions of Beco and the property portfolio from Lloyds which totalled £0.8m.

Cash performance

The cash performance has remained very strong, with average Group month-end net cash of £129m (2010: £95m). Following the initial payment, in April 2011, of £35m for the property portfolio from Lloyds, the subsequent early sale of two assets recouped £26m of that outlay which supported a net cash position at 30 June 2011, after deducting £30m relating to loan notes, of £165m (2010: £175m).

Overall the Group has invested approximately £50m during the year in its own growth, including land payments, mining equipment, further investment in Pure Recycling, the acquisition of Beco and the property portfolio from Lloyds.

The Group's cash balances at 30 June 2011 include £73m (2009: £52m) which is held in joint contracting agreements, overseas bank accounts and other cash arrangements and is therefore not readily available to the Group. The liquid cash position is also affected by seasonal, monthly and contract-specific cycles.

Dividend policy

We continue to maintain our progressive dividend policy and, taking into account the performance of the Group and its strong cash position, the Board has recommended a final dividend of 44p, making the full-year dividend 64p, an increase of 10% on the total paid in respect of 2010 (58p) reflecting the confidence in the business going forward. This is 2.3 times covered by underlying earnings per share.

Treasury facilities and policies

The Group has a number of committed bilateral facilities, which amount to £90m, an uncommitted £10m overdraft facility and long-term debt of £30m, all managed by the centralised treasury function.

The bilateral facilities were renewed during the year and extend to February 2014. A small number of relationship banks provide these facilities which support the Group and its future growth plans. The long-term debt of £30m represents a 10-year UK and US private placement and is due to be repaid in February 2013.

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

Balance sheet and capital structure

Total equity at 30 June 2011 is £164m (2010: £104m).

Acquisitions and intangible assets

The balance sheet at 30 June 2011 includes intangible assets of £27m (2010: £28m) of which £11m relates to building maintenance contracts.

During the year, we made two acquisitions as follows:

- In November 2010, we acquired Beco for a total consideration of £2.4m. £1.3m has been paid in the year to 30 June 2011 with the remainder contingent upon the completion of certain events, together

Steel frame, Buckfast Winery site
The £3m Buckfast Abbey winery project in Devon will facilitate the continued success of this important local brand and support the Abbey's charitable work in the area. The project, which must be built within the grounds of the Abbey to protect the Buckfast name, will comprise the construction of a new 1,300sq m winery together with drainage, external works and a new access road.

with the results of the business through to 2013. The net present value of the deferred consideration is £1.0m.

- In April 2011, we acquired Lloyds Banking Group's 50% interest in our jointly owned portfolio of property assets. The aggregate consideration was £91m, of which £35m was paid in cash on completion, £30m will be paid in cash in October 2012 and £26m will be paid in cash in October 2013. The net present value of the deferred consideration is £52m.

Inventories

An analysis of inventories is given below:

Year to 30 June	2011 £m	2010 £m
Residential land	159	214
Residential work in progress	133	126
Property land and work in progress	87	19
Other work in progress	52	48
	431	**407**

The review of our land bank, which resulted in a write-down of the value of the land and work in progress by £33.5m, accounts for much of the decrease in the residential land balance above, with the remainder due to unit and land sales.

The increase in residential work in progress highlights an increase in investment on apartment schemes, which have a different cash profile to a typical housing scheme.

Property land and work in progress has increased as it now includes the property assets acquired as part of the property portfolio transaction with Lloyds.

Pensions

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

Maidstone Prison
This project at Maidstone Prison comprised construction of a new kitchen facility using precast floors and walls with a structural steel roof and composite panel roof structure. The new kitchen is based on NOMS standard design adjusted to fit within the layout and topography of the site. The building was designed to sit on the area of the existing kitchen to make use of existing foundations. Rainwater recycling was incorporated within the project to assist in meeting a BREEAM Excellent target.

The triennial valuation of the Kier Group Pension Scheme, dated 1 April 2010, was completed during the year and showed a funding position of 88%. Following discussion with the trustees, a funding plan has been agreed that maintains the current annual £8m additional deficit funding. This will also be supplemented with transfers of the Group's PFI assets as they become available and are suitable for the Scheme. The Group is committed to continuing to support the funding position of the Scheme.

At 30 June 2011, the net deficit under the Kier Group Pension Scheme was £23m (2010: £57m). The net deficit position is after taking into account the exceptional credit of £25.7m arising from changes announced in the 2010 Budget which apply to private sector pension schemes. These changes will result in future pensions increasing at the rate of CPI rather than RPI and, therefore, reduce the Scheme liabilities.

The market value of the Pension Scheme's assets was £680m (2010: £611m) and the net present value of the liabilities was £711m (2010: £690m). The increase in the assets during the year is because equity and other return-seeking assets increased more than previously assumed, while bond markets remained relatively flat.

The increase in the liabilities during the year is primarily the result of the increase in RPI to 3.6% (2010: 3.2%), the hardening of mortality assumptions offset by the increase in discount rate to 5.5% (2010: 5.3%) and the change in inflation assumptions (RPI to CPI) described earlier.

At 30 June 2011, the scheme relating to Kier Sheffield LLP showed a net surplus position of £1m (2010: net deficit £6m).

Note 8 of the consolidated financial statements on page 77 includes a sensitivity analysis that highlights the impact of changes to the key assumptions to the Kier Group Pension Scheme and the Kier Sheffield LLP pension scheme.

Net pension charges of £4.8m (before the exceptional credit of £25.7m) (2010: £11.9m) have been made to the income statement in accordance with IAS 19. The lower charge reflects the higher return on scheme assets.

Going concern

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

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

Haydn Mursell
Finance Director

Business risks

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

Our risk management process

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

How we manage risk and assurance

The Board is responsible for the Group's system of risk management and internal control and the Group risk management framework sets out the mechanism and reporting structure to ensure that key risks are continually monitored and any action plans to mitigate the risks are reviewed.

The Board has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the Group's internal controls including the systems established to identify, assess, manage and monitor risk. In addition to the ongoing monitoring of risk and controls, a report detailing the key risks together with an assessment of the controls in place to mitigate these risks and any action plans is prepared annually and reviewed by the Audit Committee. The last report was prepared in March 2011 and reviewed at the June 2011 Audit Committee meeting. The Board has concluded that the Group maintained sound risk management and internal control systems throughout the year to June 2011.

Other processes of assurance are managed through Group Standing Orders (updated in January 2011) the Board, the Executive Management Team, a range of Group policies and several central function committees including the Group Corporate Responsibility steering committee and the Group Health, Safety and Environment steering committee, both being chaired by the Chief Executive Officer and reporting regularly to the Board.

Principal risks

The nature of the industry and the business environment in which the Group operates is inherently risky and a number of risks and uncertainties exist. Although it is recognised that it is not possible to eliminate all such risks and uncertainties, the Group has well established risk management and internal control systems to manage them.

The Group's established risk management and internal control systems have helped it to respond to the changing business environment and the challenges presented during the year.

Business risks
continued

Macro-economic climate

Risk
The order books for our Construction and Services divisions are dependent upon the level of expenditure in the public sector and the availability of credit for private sector expenditure. Instability in global exchange rates could significantly escalate material and fuel prices, thereby putting pressure on some project cost forecasts.

Mitigation
The Group has created a structure to manage and mitigate risk with the following key components:
- A wide geographic regional network of offices across the UK providing strong integration into local communities, our client base and our supply chain
- A strong level of framework agreements and partnerships with government, local authorities and the private sector
- An ability to react to evolving opportunities in the marketplace and to maintain a focus on cost reduction and efficiency.

We also carry out monthly and quarterly reviews of our workload and forecast our overhead levels as a percentage of future work in order to maintain a steady ratio of overhead costs to revenue. Fuel and other materials that are in high demand, such as steel, are hedged or forward-purchased when deemed necessary. In addition our terms and conditions include inflation and/or escalation clauses as standard.

Contract and build

Risk
The Group carries out several hundred contracts annually and the risks to which the Group is exposed are dependent upon the nature of the work, the duration of the contract and the legal form of the contract.

Mitigation
The Group's appetite for very long-term, large, competitively tendered construction contracts is limited, driven by the desire to maintain quality of workload and manage risk. Tenders for contracts are subject to approval by the Board, chief executive and finance director or divisional directors depending upon the value and nature of the contract. Contracts in progress are controlled and managed through the Group's operating structure and procedures including rigorous and regular review of the forecast revenue and costs to complete.

Land and property development acquisition

Risk
The cost and quality of property and land is fundamental to the profitability of a property development and housing business.

Mitigation
Site evaluation is a key process and site appraisals are carried out in detail, including using external advice where appropriate. Land and development acquisitions are subject to approval by the Board, chief executive and finance director or divisional directors depending upon the value of the land. Developments in progress are controlled and managed through the Group's operating structure and procedures including rigorous and regular review of the forecast financials and sales activity.

In the case of the Property division, development risk is controlled by ensuring construction generally commences once the division has either pre-sold or pre-let key elements of the development.

Health, safety and environmental

Risk
The Group's activities require the continuous monitoring and management of health, safety and environmental risks. Failure to manage these risks could cause injury to our employees and subcontractors and could expose the Group to significant potential liability and reputational damage.

Mitigation
Detailed HSE policies and procedures exist to minimise such risks and are subject to review and monitoring by the operating companies and Group. All operating companies have a director responsible for HSE; however it is recognised that all of our directors and employees are responsible for health and safety.

Information technology

Risk
The efficient operation of the Group is increasingly dependent upon the proper operation, performance and development of its IT systems. Failure to manage or integrate IT systems or failure to successfully implement changes in IT systems could result in a loss of control over critical business information and/or systems. This, in turn, could impact the Group's ability to fulfil its contractual obligations.

Mitigation
Group IT centrally manages the majority of systems across the Group. Other IT systems are managed locally by experienced IT personnel. Significant investments in IT systems are subject to Board review and approval.

Pensions

Risk
The Group is exposed to funding risks arising from changes in longevity, inflation and investment assumptions in relation to its defined benefit schemes. These changes could result in an additional funding requirement.

Mitigation
Steps have been taken over time to eradicate our calculated deficit including the closure of the Group's pension scheme to new entrants in 2002, the composition of a cap on pensionable salary increases, taken in 2009 and the change in inflation assumption, from RPI to CPI, taken in 2011. Other measures to mitigate liabilities are under continuous review by the Group.

The performance of the Group's pension scheme is regularly monitored by the Group and the Trustees of the pension scheme who, as appropriate, take advice from external consultants.

Investment

Risk
The Group recognises there are risks associated with PFI investment.

Mitigation
The Group is selective in the PFI projects it bids for, primarily concentrating on the sectors where we have established construction and facilities management expertise.

People

Risk
The Group is dependent on members of its senior management team and on a flexible, highly skilled and well-motivated workforce and believes its future success will depend, in part, on its ability to attract, develop and retain its people. If the Group does not succeed in attracting, developing and retaining skilled people it may not be able to grow the business as anticipated.

Mitigation
The Group monitors staff turnover closely and pay and conditions are reviewed regularly against the prevailing market and benchmarked to ensure that we remain competitive.

Succession planning and staff development are key at all levels in the Group.

Legal and regulatory

Risk
The Group is subject to a number of complex, demanding and evolving tax, legal and regulatory requirements. A breach of laws and regulations could lead to legal proceedings, investigations or disputes resulting in a disruption of business ranging from additional costs incurred on a project to civil and/or criminal penalties as well as reputational damage. The recent Bribery Act 2010 also has the potential to impact upon the business, especially given its international remit for UK corporates.

Mitigation
The Group monitors and responds to legal and regulatory developments in the areas in which it operates. It is the Group's policy to require that all of its subsidiaries, employees, suppliers and subcontractors comply with applicable laws, regulations and standards. Training courses are provided, including e-learning courses, to keep all parties fully aware of their responsibilities. The Group has a zero tolerance policy to bribery and corruption and has undertaken a Group-wide training programme to raise awareness of the Bribery Act 2010.

Counterparty

Risk
The Group depends, for its success, on the stability of its customers, joint venture partners, suppliers, subcontractors, funders, bondsmen and insurers. Failure in these counter parties could result in non-collection of amounts owed or disruption and delays to contract progress.

Mitigation
Considerable efforts are made to assess the financial strength of counter parties 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 dependent upon 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 counter parties so as to diversify risk.

Availability of finance and bonding facilities

Risk
The Group's long-term business is dependent upon cash resources, facilities and the ability to provide performance and other bonds as necessary.

Mitigation
Cash forecasts and balances are prepared regularly (weekly and daily). Bank facilities are in place which have been recently renegotiated and extended. The Group has strong, long-term relationships with its bondsmen and has an in-house team which monitors headroom and advises on bond terms and conditions.

Reputation

Risk
The Group's ability to tender for new business and our relationship with our range of customers, supply chain partners, our employees and other stakeholders greatly depends on the good reputation that we have established and how we are perceived by others.

Mitigation
In order to protect and enhance our reputation we have a robust series of business ethics, sustainability and compliance policies together with a range of mechanisms that help deliver the Group's corporate responsibility programme, including health and safety, environmental impact, climate change, employees, customers and supply chain and community engagement.

Board of Directors

Name:	**Phil White CBE**
Position:	Non-Executive Chairman
Age:	62

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

Name:	**Paul Sheffield**
Position:	Chief Executive
Age:	50

Appointed chief executive in April 2010. He joined the Group as a graduate engineer in 1983. He has extensive knowledge of both UK and overseas contracting and was appointed managing director of Kier Construction in 2001, and joined the Construction division Board in 2004. He was appointed to the Board in October 2005 and in November 2008 he assumed responsibility for all of the Group's construction activities. He holds the position of director with overall responsibility for safety, health and environmental matters and is a member of the Nomination Committee.

Name:	**Hugh Raven**
Position:	Company secretary
Age:	39

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

Name:	**Richard Bailey**
Position:	Non-executive
Age:	60

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

Audit Committee

Richard Bailey (chair)
Chris Geoghegan
Nick Winser

Nomination Committee

Phil White (chair)
Paul Sheffield
Richard Bailey
Chris Geoghegan
Nick Winser

Remuneration Committee

Chris Geoghegan (chair)
Phil White
Richard Bailey
Nick Winser

Name:	**Haydn Mursell**
Position:	Finance Director
Age:	40

Joined Kier in August 2010 as Group finance director designate and took over the role of Group finance director in November 2010. He joined Kier from Balfour Beatty plc where he held the position of deputy Group finance director. He is a member of the Institute of Chartered Accountants, having trained and qualified at KPMG in London. From 2001 until 2008, he held a number of roles at Bovis Lend Lease, the last of which was as chief financial officer of its UK business.

Name:	**Steve Bowcott**
Position:	Executive Director
Age:	56

Appointed an executive director of the Group on 1 July 2010. He rejoined the Group in January 2007 to head up its Scottish and northern businesses, which are part of the Construction division. He subsequently became deputy managing director and, in April 2010 he was appointed managing director of the whole of the Construction division.

Name:	**Ian Lawson**
Position:	Executive Director
Age:	54

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 Services board. In October 2005 he was appointed main board director responsible for Services and in July 2008 his responsibilities were extended to include the Homes division, and in July 2011 further extended to include the Property division.

Name:	**Chris Geoghegan**
Position:	Non-executive
Age:	57

Appointed to the Board in July 2007. He joined the Board of BAE Systems plc in July 2002 as chief operating officer with responsibility for all European joint ventures and UK defence electronics assets. He is non-executive chairman of e2v technologies plc, a non-executive director of 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.

Name:	**Nick Winser**
Position:	Non-executive
Age:	51

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

Directors' report

Introduction
The directors present their annual report and audited financial statements as at, and for the year ended, 30 June 2011.

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

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

A review of the Group's business and progress during the year is included within the chairman's statement on pages 4 and 5 and the chief executive's review on pages 6 to 29.

Results and dividends
The Group's profit for the year after taxation and exceptional items was £62.3m (2010: £40.5m).

An interim dividend of 20p per share (2010: 18.5p), amounting to £7.5m (2010: £6.8m), was paid on 6 May 2011. The directors propose a final dividend of 44.0p per share (2010: 39.5p per share), amounting to £16.6m (2010: £14.6m), payable on 30 November 2011 to shareholders on the register of members at the close of business on 23 September 2011.

Directors
Biographical details of the directors of the Company as at 14 September 2011 are shown on pages 42 and 43.

Details of directors' interests, including interests in the Company's shares, are disclosed in the directors' remuneration report on pages 51 to 59.

Qualifying third party indemnities
The articles of association of the Company (the Articles) entitle the directors of the Company, to the extent permitted by the Companies Act 2006 and other applicable legislation (together, the Companies Acts), to be indemnified out of the assets of the Company in the event that they suffer any expenses in connection with certain proceedings relating to the execution of their duties as directors of the Company.

In addition, and in common with many other companies, the Company has insurance in favour of its directors and officers in respect of certain losses or liabilities to which they may be exposed due to their office.

The UK Corporate Governance Code
A statement on the Group's corporate governance is set out on pages 47 to 50.

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

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

Further information relating to the financial position of the Group, its cash flows, liquidity position and borrowing facilities is given in the financial review on pages 34 to 38.

Charitable and political donations
During the year, the Group's donations to charity in the United Kingdom were £64,000 (2010: £97,000), principally to local charities serving the communities in which it operates. The Group has considerable involvement in such communities, as described in the corporate responsibility report on pages 30 to 33. No political donations were made during the year (2010: nil).

Financial instruments
Details of the financial risk management objectives and policies of the Group, together with its exposure to material financial risks, are set out in notes 1 and 25 of the consolidated financial statements.

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

Employees
The companies in the Group are equal opportunities employers. The Group gives consideration to applications for employment made by disabled persons (having regard to their particular aptitudes and abilities) and encourages and assists, whenever practicable, the recruitment, training, career development and promotion of disabled people and the retention of, and appropriate training for, those who become disabled during the course of their employment and who can be employed in a safe working environment. The Group's approach to employee involvement, equal opportunities, health and safety and the environment is set out in the corporate responsibility report on pages 30 to 33.

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

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

Policy and practice on payment of creditors
The Group agrees payments with its suppliers and subcontractors on an individual contract basis rather than following a code or standard on payment practice. The Group's policy is to abide by these agreed terms whenever the relevant Group company is satisfied that the suppliers or subcontractors have provided the goods or services in accordance with the contract terms and conditions. The aggregate amount owed to trade creditors by the Company at 30 June 2011 was nil (2010: nil).

Subsidiary trading companies within the Group, acting in accordance with the above policy, exhibit creditor days averaging 30 days (2010: 32) in respect of suppliers of invoiced goods and services and 16 days (2010: 17) in respect of certified amounts due to subcontractors. These figures exclude amounts not currently due for payment but which are included within trade creditors.

Share capital
As at 30 June 2011, the issued share capital of the Company comprised a single class of ordinary shares of 1 pence each. As at 30 June 2011, 38,160,025 shares in the capital of the Company were in issue. During the year, 661,054 shares were issued in relation to the scrip dividend alternative and 21,585 shares were issued in connection with the Sharesave Scheme. No other shares were issued during the year. Details of the Company's share capital are set out in note 22 of the consolidated financial statements.

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

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

- that certain restrictions may from time to time be imposed by law or regulation (for example, insider trading laws); and
- pursuant to the Listing Rules of the Financial Services Authority (the Listing Rules), whereby certain employees of the Company require the approval of the Company to deal in the Company's shares.

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

Substantial voting rights
As at 14 September 2011, the Company had been notified of the following interests in the ordinary share capital of the Company, pursuant to Rule 5.1 of the Disclosure and Transparency Rules:

Standard Life Investments Limited	8.0 %
Schroder Investment Management Limited	7.3 %
BlackRock Inc	3.6 %
Legal and General Group Plc	3.5 %
Norges Bank	3.5 %

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

Rights under employees' share schemes
As at 30 June 2011, The Royal Bank of Canada, as trustee of the Kier Group 1999 Employee Benefit Trust which was established for the purposes of the Kier Group 1999 Long-Term Incentive Plan (the 1999 LTIP) and the Kier Group 2010 Long-Term Incentive Plan (the 2010 LTIP), which were approved by shareholders on 27 November 1999 and 12 November 2010, respectively, held 522,664 shares (approximately 1.4% of the issued share capital of the Company as at such date) on trust for the benefit of the directors and certain senior managers of the Group. The Royal Bank of Canada waives the dividends payable in respect of these shares.

As at the same date, Computershare Investor Services PLC held 904,364 shares (approximately 2.4% of the issued share capital of the Company as at 30 June 2011) on trust for the benefit of staff and former staff who are members of the AESOP.

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

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

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

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

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

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

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

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

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

Powers in relation to the Company issuing its shares
The directors were granted authority at the annual general meeting on 12 November 2010 to allot shares in the Company up to an aggregate nominal amount of £124,928, together with shares with an aggregate nominal amount of £249,885 in connection with a rights issue. This authority will expire on the date of this year's annual general meeting and a resolution to renew the authority will be proposed at the forthcoming annual general meeting. A special resolution will also be proposed to renew the directors' power to make non-pre-emptive issues of shares for cash.

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

Change of control
The Company has entered into certain agreements that may take effect, alter or terminate upon a change of control of the Company following a takeover bid. The significant agreements in this respect are the Group's main credit facility agreements and certain of its employee share schemes.

The Group's main credit facility agreements include a provision such that, in the event of a change of control, the relevant lender may cancel all or any part of the relevant facility and/or declare that all amounts outstanding under the relevant facility are immediately due and payable by the Company.

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

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

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

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

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

Annual general meeting
The annual general meeting of the Company will be held at the Brewery, Chiswell Street, London EC1Y 4SD on 16 November 2011 at 12 noon. The notice of annual general meeting accompanies this document.

This report was approved by the Board on 14 September 2011 and signed on its behalf by:

H E E Raven
Company Secretary

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Corporate governance statement

The UK Corporate Governance 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 principles of corporate governance set out in The UK Corporate Governance Code (the Code). The Company has complied with the Main Principles of the Code throughout the year. The Board has also complied with the Code Provisions set out in the Code throughout the year, except as explained below.

Throughout the year, independent non-executive directors comprised less than half of the Board. As at the date of this document, the Board comprises four executive directors and three independent non-executive directors, together with the chairman. However, the Board believes that, although the current Board structure does not comply with the Code, it is satisfactorily balanced in practice, with the independent non-executive directors having a substantial presence in Board debate, constructively challenging the executive directors and assisting in the development of strategy.

Board of directors

The Board is responsible to shareholders for the success of the Company. The Board sets the strategic and financial policies of the Group, monitors and reviews business performance and controls risk. The Board has put in place standing orders which are designed to ensure that it is provided with 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 resources policy, including senior appointments, general salary reviews, employee share plans and pensions.

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

- the Group's budgets, strategy, structure and financial requirements;
- the Group's annual and interim financial statements (taking into account the views of the Audit Committee);
- the Group's interim management accounts;
- the implications of prevailing economic conditions (including the comprehensive spending review and its potential impact on public sector expenditure) and the appropriate strategy relating to them;
- the Group's pension scheme;
- potential acquisitions;
- material operational opportunities;
- health and safety issues and strategies;
- the procedures required to be implemented by the Group as a result of the Bribery Act 2010;
- corporate responsibility matters;
- the implications of and proper approach to the issues relating to the Castlepoint Shopping Centre car park, Bournemouth; 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. The chairman is responsible for the Board's effectiveness and sets its agenda, ensuring that the directors receive accurate, timely and clear information. The chairman also facilitates the effective contribution of the non-executive directors and ensures a positive and constructive relationship between the executive and non-executive directors. The chairman is responsible for effective communication with shareholders and for ensuring that the directors continually update their skills and knowledge, and familiarity with the Group, as required to fulfil their roles. Mr P M White's other significant commitments are his roles as chairman of The Unite Group plc and Lookers plc and as a non-executive director of Stagecoach Group plc.

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

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

Board of directors continued

The Board considers Mr C V Geoghegan, Mr N P Winser and Mr R C Bailey to be independent directors. The chairman of the Board, Mr P M White, was also considered to be independent on his appointment.

A table of attendance of directors at meetings of the Board and its committees is set out on page 49. Outside the formal schedule of meetings, the non-executive directors met without the executive directors on a number of occasions during the year.

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

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

Board evaluation

The Board has engaged Independent Board Evaluation (IBE) to facilitate the evaluation of the performance of the Board, its committees and the individual directors. IBE does not have any other connection with the Group.

The evaluation process, which began during the course of the financial year, comprises IBE observing the performance of the Board and the individual directors at a meeting of the Board, individual meetings with each of the directors to discuss their views and to solicit their opinions, and meetings with senior management below Board level to ascertain their views on the effectiveness of the Board and the directors.

IBE will produce reports with respect to the performance of the Board, the chairman, the committees and the individual directors. The report relating to the Board is scheduled to be discussed at the Board meeting to take place in October 2011. The reports relating to the Board committees will be discussed with the chairmen of these committees, the chairman of the Board will provide feedback to each individual director, using development plans, and the senior non-executive director will provide feedback to the chairman of the Board on the chairman's performance.

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

Audit Committee

The Audit Committee comprises the non-executive directors. With effect from 1 October 2010, Mr R C Bailey, a chartered accountant with recent and relevant financial experience, has been the chairman of the Committee, replacing Mr S W Leathes who retired from the Board with effect from 12 November 2010.

The Committee met four times during the year, in July, September, February and June. These meetings were also attended by the finance director and the head of internal audit. The KPMG audit engagement director attended the meetings in September and February and then met with the Committee without management being present. The chairman and the executive directors have an open invitation to attend the meetings of the Committee.

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 processes and reviewing the scope and results of the external audit.

The Committee also has responsibility for overseeing the Group's 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 Committee.

At each of its meetings, the Committee received and reviewed a report from the head of internal audit which highlighted the internal audit activity against the approved plan, together with the key findings from internal audits. The chairman of the Committee has separate meetings with the head of internal audit and the Committee has met with the head of internal audit without management being present. The Committee reviews the effectiveness of the internal audit function annually, with the latest review having been completed in June 2011. In addition, an independent external review is scheduled to be carried out in October 2011.

The Committee is responsible for monitoring the independence and objectivity of KPMG, the external auditors, 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 was agreed. It also discussed the firm's professional ethical standards.

The Committee reviewed the performance of KPMG and the fees for non-audit services paid to them during the year, details of 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 predetermined cost threshold and any work costed below that threshold must be pre-approved by the Group finance director. These controls enable the Committee to be satisfied that KPMG's objectivity and independence as auditors had not been impaired, notwithstanding the provision of non-audit services in the year.

The Committee agreed and approved KPMG's overall audit fee following discussions between relevant Group management and KPMG.

The Committee's terms of reference were last updated in August 2011 (to reflect the most recent guidance of the Institute of Chartered Secretaries and Administrators (ICSA)) and are available on the Company's website and on request from the company secretary.

Remuneration Committee

The Remuneration Committee comprises the chairman and the non-executive directors, under the chairmanship of Mr C V Geoghegan.

Information about the workings of this Committee is contained in the directors' remuneration report on page 51. 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 Committee's terms of reference were last updated in August 2011 (to reflect ICSA's most recent guidance) and are available on the Company's website and on request from the company secretary.

Nomination Committee

The Nomination Committee presently comprises the Group's 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. In identifying suitable candidates, the Committee is required to consider whether open advertising or the services of external advisers may be necessary to facilitate the search. The Committee's terms of reference were last updated in August 2011 (to reflect ICSA's most recent guidance) and are available on the Company's website and on request from the company secretary.

Board and Committee meetings

Details of the number of meetings of the full Board and the Audit, Remuneration and Nomination Committees, and attendance at such meetings, during the year are set out in the table below.

Name of director	Board (11)	Audit (4)	Remuneration (6)	Nomination (1)
R C Bailey[1]	8	3	4	1
S Bowcott	11	–	–	1
C V Geoghegan	10	3	6	1
I M Lawson	11	–	–	1
S W Leathes[2]	3	1	1	–
D E Mattar[3]	4	2	–	1
H J Mursell[4]	10	3	1	–
M P Sheffield	11	2	4	1
R W Simkin	11	–	–	1
P M White	11	3	6	1
N P Winser	11	2	5	1

[1] Mr R C Bailey became a member of the Board and chairman of the Audit Committee with effect from 1 October 2010, but also attended the Board meeting and the Audit Committee meeting in September 2010.

[2] Mr S W Leathes retired from the Board and as chairman of the Audit Committee with effect from 12 November 2010.

[3] Miss D E Mattar retired from the Board with effect from 12 November 2010.

[4] Mr H J Mursell became a member of the Board with effect from 12 November 2010, but also attended the Board meetings in August, September and October 2010 and the Audit Committee meeting in September 2010.

Any non-attendance at meetings was due to other business commitments or reasons of ill health. When a director was unable to attend, he reviewed the papers circulated prior to the meeting and provided any comments to the chairman of the meeting.

Risk management and internal control

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

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

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

- an established management structure operating throughout the Group with clearly defined levels of responsibility and delegation of authority;
- clearly defined operating guidelines and procedures with authorisation limits set at appropriate levels. 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 which is carried out by the directors of each division with the chief executive and finance director in attendance;
- monthly management reporting, including regular comparison of actual results against latest forecasts;
- established policies and procedures governing the Group's investment in land, property and other significant assets, including acquisitions and disposals. These include detailed appraisals, appropriate authorisation levels and Board approval depending on value or perceived exposure;
- investment decisions, including Private Finance Initiative (PFI) projects, and tenders for contracts being 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 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 is 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 management and internal control continued

- risk registers in place for each business unit highlighting 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 requiring all operating companies 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 as at 31 March 2011 and the findings reviewed by the Audit Committee;
- reviewing 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 business unit management teams are briefed on relevant issues arising at Board meetings.

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

Relations with shareholders

The Board uses the annual general meeting to communicate with shareholders and encourages their attendance and participation. The chairmen of the Audit, Remuneration and Nomination Committees are available to answer questions from shareholders.

The Company has a programme of regular communication and meetings with investors, analysts and brokers (including site visits), with presentations being made to investors, analysts and the press at the time of the announcement of the full-year and half-year results, so that the investment community can be kept informed as to the Group's performance and its objectives. The Board uses this programme of communication and meetings to develop an understanding of the views of major shareholders about the Group. In addition, the Board is provided with independent feedback from analysts and institutional shareholders.

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

Directors' remuneration report

Introduction

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

Shareholder consultation

Despite the challenging recent economic environment, particularly within the construction sector, the Group has continued to deliver a strong financial performance, with aggregate order books for the Construction and Support Services divisions of £4.3bn as at 30 June 2011. This performance demonstrates the continued strength of the Group, the commitment and hard work of its employees and the effective leadership of its executive team.

However, the Committee remains concerned that the levels of the Group's executive directors' total remuneration (in particular, the level of performance-related pay) are lower than others in the market. The Committee is keen to ensure that the structure of executive pay is aligned with the delivery of the Group's strategy and its culture, which includes ensuring that the executive directors are appropriately incentivised and that the Group can continue to attract, retain and motivate management to run the Group successfully, but at a reasonable cost to the Group.

Accordingly, the Committee is in the process of consulting with the Group's major institutional shareholders with respect to the executive directors' annual bonus arrangements for the financial year ending 30 June 2012 and the weighting between the earnings per share (EPS) and total shareholder return (TSR) elements of the awards to be made under the 2010 LTIP during the financial year. In summary, the proposals are to:

- increase the maximum potential bonus for each executive director to 100% of basic salary, with the additional 25% relating to the Group's cash performance; and
- increase the TSR element of the awards to two-thirds of the total award and to reduce the EPS element of the awards to one-third.

The Committee considers cash to be an important performance measure for the Group and others in the construction sector and, therefore, the Committee believes that it would be appropriate to reward sustained and effective cash management in the annual bonus. The Committee also believes that a maximum potential bonus of 100% of basic salary would be more appropriately competitive, supporting the attraction and retention of talent, as it is in line with the market median for both sector peers and companies of a similar size. The Committee will maintain the levels of maximum potential payout with respect to each of the other performance measures (relating to pre-tax profits and corporate responsibility and health and safety targets) which applied to the bonus payable with respect to the financial year ended 30 June 2011, reflecting the continued relative importance of these measures.

The Committee also considers that TSR and EPS growth continue to be key measures of long-term performance for the Company. Following a review of multiple reference points, the Committee does not, therefore, propose to change the performance targets (or the percentage vesting levels relative to TSR and EPS performance) from those applicable to the 2011 award. However, the Committee is concerned that the trading and economic environment during the performance period for the awards to be made in the financial year ending 30 June 2012 is likely to be uncertain. Given this concern, and with due regard to shareholder feedback, the Committee feels that the awards would be more appropriately aligned with shareholders' interests if the emphasis on TSR performance is increased.

The Remuneration Committee

The Committee is a committee of the Board consisting of the non-executive directors and the chairman of the Board. The following directors were members of the Committee during the year ended 30 June 2011:

C V Geoghegan (chairman)
R C Bailey
S W Leathes
P M White
N P Winser

Mr R C Bailey became a director of the Company and a member of the Committee with effect from 1 October 2010. Mr S W Leathes retired as a director of the Company and a member of the Committee with effect from 12 November 2010.

The secretary of the Committee is Mr H E E Raven, the company secretary.

The Committee has complied with the Main Principles of the Code relating to directors' remuneration throughout the year. The Committee has also complied with the Code Provisions set out in the Code throughout the year, except as explained in this document. 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. Details of the number of times that the Committee met, and the number of meetings attended by each director, during the year ended 30 June 2011 are set out on page 49. 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 2011, the Committee was advised by its independent remuneration advisers, Kepler Associates. Kepler Associates provides no other advice, or services, to the Company.

Remuneration policy

The Committee makes recommendations to the Board on its 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 the remuneration packages of other senior members of management within the Group.

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

The Committee reviews the executive directors' remuneration on an annual basis. At each review, the Committee considers an individual's experience and performance in their role over the year (as well as over the period since being given the role) against a number of key performance indicators relating to both individual and corporate measures of performance. The individual's experience and performance are then considered against the market positioning of pay for the role, based on an analysis of external reference points provided by the Group's independent remuneration advisers. The Committee's key objective is to ensure executive pay is aligned with shareholders' interests, taking into account the need to:

- attract, retain and motivate talent, but at a reasonable cost to the Group;
- maintain an appropriate balance between fixed and performance-related elements of remuneration; and
- place an increasing emphasis on rewarding executives by reference to the Group's long-term performance by incentivising sustainable profit growth and the creation of long-term value.

During the year, the executive directors' salaries were benchmarked against salaries at companies of a similar size (both in terms of market capitalisation and revenue) and companies operating in the same industry sectors as the Group. Comparisons were made with executive directors' salaries within the construction, services, property and house building sectors in respect of each Board position.

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

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

The 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 appointments.

Basic salary

The Committee determined that the executive directors' basic salaries would increase as follows with effect from 1 July 2011:

	From 1 July 2011 £000	From 1 July 2010 £000	% increase
S Bowcott	**330**	310	6.5
I M Lawson	**385**	375[1]	2.7
H J Mursell[2]	**310**	310	–
M P Sheffield	**460**	430[3]	7.0

[1] With effect from 1 November 2010. From 1 July 2010 to 31 October 2010, Mr I M Lawson's basic salary was £330,000.
[2] Mr H J Mursell was appointed to the Board with effect from 12 November 2010.
[3] With effect from Mr M P Sheffield's promotion to chief executive in April 2010.

The increases for Mr M P Sheffield and Mr S Bowcott reflect the significant progress of both individuals in these roles, together with the strong performances of both the Group and the Construction division, since their appointments to their current roles in 2010. The Committee believes that the overall market positioning of salary for both individuals, however, remains below the market median.

Mr I M Lawson received an increase in salary during 2010 from £330,000 to £375,000 reflecting the fact that he would be assisting the chief executive to implement the Group's strategy. Mr I M Lawson's salary increase with effect from 1 July 2011 is in line with the average salary increases across the Group.

Mr H J Mursell was appointed to the Board with effect from 12 November 2010 and the Committee believes that it would be appropriate to review his salary on the first anniversary of his appointment.

Mr R W Simkin retired from the Board with effect from 30 June 2011 and, accordingly, has not been referred to in the above table.

The Committee believes that these changes are consistent with its stated aim of attracting, retaining and maintaining talent at a reasonable cost to the Group.

Having reviewed the level of fees paid to the non-executive directors alongside those paid by the Group's peers, it was decided that the fees payable to the non-executive directors would be increased as follows with effect from 1 July 2011:

	From 1 July 2011 £000	From 1 July 2010 £000
R C Bailey[1]	**52**	50
C V Geoghegan[2]	**54**	53
P M White	**158**	155
N P Winser	**43**	42

[1] The fees payable to Mr R C Bailey include an amount in respect of his position as chairman of the Audit Committee.
[2] The fees payable to Mr C V Geoghegan include an amount in respect of his position as chairman of the Remuneration Committee.

Annual bonus arrangements

During the year ended 30 June 2011, executive directors were eligible to receive a cash bonus of up to 75% of basic salary. Of this, 80% was payable if the Group achieved certain pre-tax profit performance targets. The remaining 20% was payable if corporate responsibility and health and safety performance targets, which are considered to be key non-financial measures for the Group, were achieved.

Based on the Committee's review of the Group's performance against its targets, it determined that a bonus of 52% of basic salary would be payable to each of the executive directors during the year, as shown in the table on page 56, and was satisfied that this was commensurate with the Group's overall performance for the year. Although the precise targets cannot be published externally for reasons of commercial confidentiality, the Group exceeded its budgeted pre-tax profit and has achieved its health and safety and corporate responsibility targets.

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

Long-term incentives

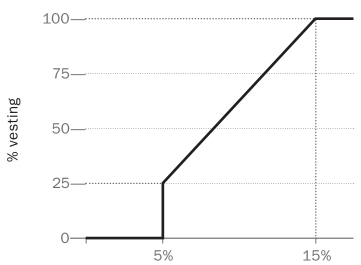
Following approval of the 2010 LTIP at the 2010 annual general meeting, the Committee made contingent awards to executive directors of 100% of salary on 15 November 2010.

Individual award sizes under the 2010 LTIP may be up to 200% of salary, which provides the Committee with the flexibility to increase the long-term variable elements of the executive directors' remuneration package. However, the Committee does not intend to make awards in excess of 100% of salary in the financial year ending 30 June 2012 and, in the future, proposes to consult with shareholders in advance of making any awards which are significantly in excess of 100% of salary.

Participation in the 2010 LTIP has been extended to the senior management team and other key employees, which the Committee believes will further strengthen alignment with shareholders' interests.

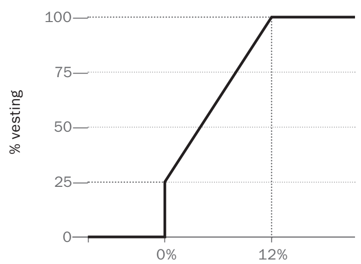
The awards made in November 2010 are subject to the satisfaction of performance criteria which relate to the Group's EPS and TSR over a three-year period ending 30 June 2013, as follows:

EPS element of the award



Cumulative EPS growth from 30 June 2010 to 30 June 2013 (equivalent to CAGR)

TSR element of the award



TSR % outperformance 2010-13 of weighted index (p.a.)

The Committee believes that EPS continues to be a key measure of long-term performance for the Group and that measuring EPS targets on a cumulative basis provides robust performance targets. By way of illustration, cumulative EPS growth of 15% over a three-year performance period against a previous year EPS of 100p would be achieved if cumulative EPS over the performance period is at least 399p.

None of the EPS element of the awards made in November 2010 will vest if the Group's cumulative EPS growth over the performance period is less than 5% per annum, 25% of the EPS element will vest for cumulative EPS growth of 5% per annum and 100% will vest for cumulative EPS growth of 15% per annum or higher. Awards will vest on a straight-line basis for cumulative EPS performance between these two points.

For each new award cycle, the Committee will set EPS targets which it considers to be stretching but achievable, based on a number of external reference points (including brokers' earnings forecasts for the Group and its peers), together with internal forecasts.

TSR outperformance is measured on a multiplicative basis relative to a revenue weighted index based on the FTSE ASX Construction index and the FTSE ASX Support Services index. For each award cycle, the revenue weightings are fixed based on the Group's prior year revenue mix and disclosed in the remuneration report after the award has been made. Such a weighted index is intended to provide a better reflection of the Group's overall business mix and therefore provide a more robust measure of management's contribution to long-term value creation. For the awards made in November 2010, these weightings were 75% on the Construction index and 25% on the Support Services index. For example, over the three-year period, if Construction index TSR is 16% and Support Services index TSR is 12%, the Group's TSR will need to be at least 15% ((75% x 16%) + (25% x 12%)) for this element of the LTIP award to vest.

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

The Committee will also review the TSR performance targets for new award cycles to ensure that they continue to be appropriately stretching but achievable.

At the end of each performance cycle, the Committee will undertake to ensure that any payout from either the 1999 LTIP or the 2010 LTIP, as the case may be, reflects the long-term underlying performance of the Group.

There were no variations to either the 1999 LTIP or the 2010 LTIP during the year.

Long-term incentives continued

Outstanding awards made to those persons who, during the year ended 30 June 2011, have served as a director of the Company under the 1999 LTIP and the 2010 LTIP are in the form of a deferred contingent right to acquire, at no cost, the following maximum number of ordinary shares in the Company:

	2009 award	2010 award	2011 award	Cumulative total 30 June 2011	Cumulative total 30 June 2010
S Bowcott	8,974	6,635	24,218	39,827	19,011
I M Lawson	34,871	25,781	29,296	89,948	71,363
D E Mattar[1]	36,021	17,501	–	53,522[2]	77,297
H J Mursell	–	–	24,218	24,218	–[3]
M P Sheffield	34,871	25,781	33,593	94,245	71,363
R W Simkin[4]	34,871	17,187	8,583	60,641	72,648
Date of award	17 November 2008	13 October 2009	15 November 2010		
Share price at the time of award	780p	1,055p	1,271p		
End of performance period	30 June 2011	30 June 2012	30 June 1013		

[1] The maximum number of ordinary shares in the Company to which the 2009 and 2010 awards granted to Miss D E Mattar relate was reduced from 37,051 and 27,393, respectively, to reflect the time length of service with the Group of Miss D E Mattar during the performance periods for such awards.
[2] As at 31 May 2011, being the date on which Miss D E Mattar ceased to be an employee of the Group.
[3] As at 12 November 2010, being the date on which Mr H J Mursell became a member of the Board.
[4] The maximum number of ordinary shares in the Company to which the 2010 and 2011 awards granted to Mr R W Simkin relate was reduced from 25,781 and 25,750, respectively, to reflect the length of service with the Group of Mr R W Simkin during the performance periods for such awards.

In relation to the 2009 and 2010 awards, 25% of the award vests if 5% per annum EPS growth is achieved over the relevant performance period, increasing on a sliding scale to 100% if EPS growth is at least 15% per annum over the period. The performance criteria relating to the 2011 award are set out on page 53. The performance criteria relating to the 2012 award, as described on page 51, will be confirmed in next year’s directors’ remuneration report.

The Committee has decided that the 2009 award will not vest and it has therefore lapsed.

As further described in note 1 to the financial statements, disposals of PFI investments are no longer to be included as exceptional items in the Group’s income statement. Therefore, any such PFI sales will be included for the purposes of calculating the vesting of the 2010 and 2011 awards and all future awards under the 2010 LTIP, both in relation to establishing the opening EPS position with respect to an award and in assessing the Group’s performance during the relevant performance period.

Directors' pensions

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

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

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

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

Pension benefits earned by those persons who have served as a director during the year ended 30 June 2011 and are members of the defined benefit section of the Pension Scheme are as follows:

	Increase in accrued pension over the year £000	Increase in accrued pension over the year[1] £000	Transfer value of increase in accrued pension[2] £000	Accumulated total accrued pension at 30 June 2011 £000	Transfer value of accrued pension at 30 June 2010 £000	Increase in transfer value £000	Transfer value of accrued pension at 30 June 2011 £000
I M Lawson	11	8	114	75	961	176	1,137
D E Mattar[3,4]	10	7	89	69	686	183	869
M P Sheffield[5]	6	–	–	140	1,715	182	1,897
R W Simkin[6]	(33)	(37)	(832)	80	2,425	(658)	1,767

[1] The figures in this column represent the difference between the total accrued benefit at the end of the year and the equivalent amount at the beginning of the year. The figures shown have been adjusted to allow for the Retail Prices Index measure of inflation during the year.

[2] The figures in this column are the transfer values of the increases in the directors' benefits during the year ended.

[3] Miss D E Mattar ceased to be employed by the Company on 31 May 2011 and became entitled to a deferred pension at that date.

[4] Miss D E Mattar's accrued pension value and the transfer value of her accrued pension at 30 June 2010 have each been restated to take account of the treatment of pension accruals on leaving the Pension Scheme before normal retirement date.

[5] Mr M P Sheffield opted out of the Pension Scheme with effect from 30 June 2010 and became entitled to a deferred pension on that date. Mr M P Sheffield receives a cash allowance of 20% in lieu of continued pension accrual.

[6] Mr R W Simkin elected to receive his pension from 6 September 2010. The pension figure shown at 30 June 2011 is the annual pension which Mr R W Simkin was entitled to receive at that date. Upon retirement, Mr R W Simkin opted to surrender £32,374 of pension in return for a pension commencement lump sum of £450,000. In addition, he surrendered a further £3,685 of his pension in order to pay a lifetime allowance charge of £73,705.

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

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

Directors' pensions continued

Contributions paid to the defined contribution section of the Pension Scheme on behalf of the directors during the year ended 30 June 2011 were as follows:

	Contributions over the year £000
S Bowcott	70
H J Mursell	58

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

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

Benefits in kind

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

Directors' emoluments

The value of all emoluments receivable by those persons who have served as a director during the year ended 30 June 2011 (together with the value of all amounts paid to former directors during the year) was as follows:

	Salary and fees £000	Pension[1] salary sacrifice £000	Pension[1] supplement £000	Benefits £000	Bonus £000	**Total 2011 £000**	Total 2010 £000
R C Bailey[2]	38	–	–	–	–	**38**	–
S Bowcott[3]	310	(12)	3	9	160	**470**	–
J Dodds[4]	–	–	–	–	92	**92**	700
C V Geoghegan	53	–	–	–	–	**53**	51
I M Lawson	360	(25)	10	23	186	**554**	439
S W Leathes[5]	39	–	–	–	–	**39**	91
D E Mattar[6]	321	(25)	–	14	166	**476**	465
H J Mursell[7]	270	(10)	3	10	139	**412**	–
M P Sheffield	430	–	86	15	222	**753**	476
R W Simkin	330	(7)	49	13	170	**555**	428
P M White	155	–	–	–	–	**155**	150
N P Winser	42	–	–	–	–	**42**	41
R W Side[8]	–	–	–	–	–	**–**	30
	2,348	(79)	151	84	1,135	**3,639**	2,871

[1] The pension salary sacrifice and pension supplement are explained in the pensions section on pages 55 and 56.

[2] Mr R C Bailey became a member of the Board with effect from 1 October 2010.

[3] In addition to the above amounts, the Group paid Mr S Bowcott £95,252 (gross of tax) in respect of relocation expenses.

[4] Mr J Dodds retired from the Board with effect from 31 March 2010. The bonus referred to above as having been paid to Mr J Dodds represents his entitlement for the year ended 30 June 2011.

[5] Mr S W Leathes retired from the Board with effect from 12 November 2010. The emoluments referred to above as having been paid to Mr S W Leathes include £18,000 (2010: £42,000) in respect of his position as chairman of the Pension Scheme during the period from and including 1 July 2010 to and including 12 November 2010. Mr S W Leathes remains the Chairman of the Pension Scheme.

[6] Miss D E Mattar retired from the Board with effect from 12 November 2010. Of the salary referred to above as having been paid to Miss D E Mattar, £185,000 was paid in respect of the notice period under her service agreement, which concluded on 31 May 2011.

[7] Mr H J Mursell became a member of the Board with effect from 12 November 2010. Of the amounts referred to above as having been paid to Mr H J Mursell, £76,000 was paid in respect of the period from the date on which he joined the Group as an employee (18 August 2010) to 12 November 2010. In addition to the above amounts, the Group paid £90,320 (gross of tax) in respect of relocation expenses to Mr H J Mursell or on his behalf.

[8] Mr R W Side retired from the Board on 8 November 2008. The amount referred to above represents his bonus entitlement for the year ended 30 June 2009, which was paid during the year ended 30 June 2010.

Service contracts

Name[1]	Effective Date	Notice Period[2]
R C Bailey	1 October 2010	1 month
S Bowcott	1 July 2010	12 months
C V Geoghegan	1 July 2007	1 month
I M Lawson	1 October 2005	12 months
H J Mursell	12 November 2010	12 months
M P Sheffield	1 October 2005	12 months
P M White	2 January 2008	1 month
N P Winser	1 March 2009	1 month

[1] During the year, Miss D E Mattar, Mr R W Simkin and Mr S W Leathes each retired from the Board, with effect from 12 November 2010 (in the case of Miss D E Mattar and Mr S W Leathes) and 30 June 2011 in the case of Mr R W Simkin.
[2] Notice may be served by either party.

No term is included in any of the executive directors' service agreements or the non-executive directors' letters of appointment. However, each director is subject to re-election, in accordance with the Articles, further details of which are set out on page 45. At the forthcoming annual general meeting, each of the directors will offer himself for re-election to the Board.

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

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

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

Shareholding guidelines

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

Directors' remuneration report
continued

Directors' interests

The directors of the Company at 30 June 2011 had the following beneficial interests (including interests of connected persons) in the ordinary shares of the Company:

	30 June 2011	1 July 2010 (or date of appointment, if later)
R C Bailey	–	–
S Bowcott	2,451	2,234
C V Geoghegan	5,000	5,000
I M Lawson	21,031	19,854
H J Mursell	5,321	5,000
M P Sheffield	39,698	37,820
P M White	2,540	2,540
N P Winser	3,500	3,500

The holdings of Mr S Bowcott, Mr I M Lawson and Mr H J Mursell include the matching shares purchased, at no cost to the individual, on their behalf pursuant to the AESOP.

Mr R W Simkin, who retired as a director on 30 June 2011, had a beneficial interest in 313,004 ordinary shares in the capital of the Company as at that date (1 July 2010: 313,004).

The executive directors, as potential beneficiaries of the Kier Group 1999 Employee Benefit Trust (the Trust), are deemed along with certain other UK employees to have an interest in 522,664 (2010: 522,664) ordinary shares with an aggregate nominal value of £5,227 (2010: £5,227), representing approximately 1.4% of the issued share capital of the Company, held by the Trust as at 14 September 2011.

At 14 September 2011, the following directors had acquired beneficial interests in further ordinary shares in the capital of the Company: Mr S Bowcott, 46 shares; Mr I M Lawson, 46 shares and Mr H J Mursell, 47 shares. There have been no changes in the interests of the other directors (or their connected persons) in the ordinary shares in the capital of the Company since 30 June 2011.

The Sharesave Scheme

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

The following directors hold options under the Sharesave Scheme in respect of the following number of ordinary shares in the capital of the Company:

	Date granted	**Number at 1 July 2010**	**Awarded during the year**	**Exercised during the year**	**Lapsed during the year**	**Number at 30 June 2011**	**Exercise price**	**Exercise period**
S Bowcott	17 April 2009	1,120	–	–	–	1,220	£7.50	1 July 2012 – 1 January 2013
H J Mursell	28 April 2011	–	784	–	–	784	£11.50	1 July 2014 – 1 January 2015
I M Lawson	17 April 2009	1,220	–	–	–	1,220	£7.50	1 July 2012 – 1 January 2013
M P Sheffield	17 April 2009	1,220	–	–	–	1,220	£7.50	1 July 2012 – 1 January 2013

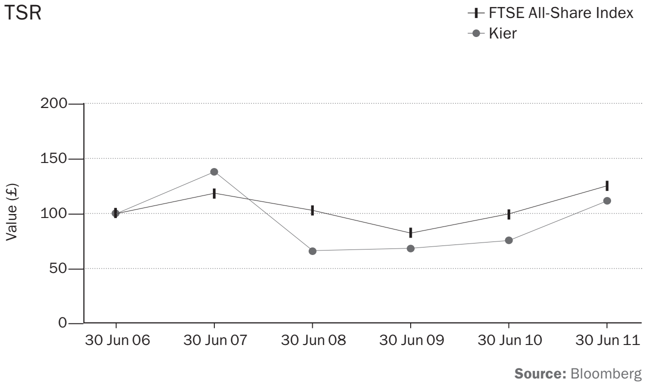
The preceding table assumes that the relevant directors continue to participate in the Sharesave Scheme until the commencement of the relevant exercise period.

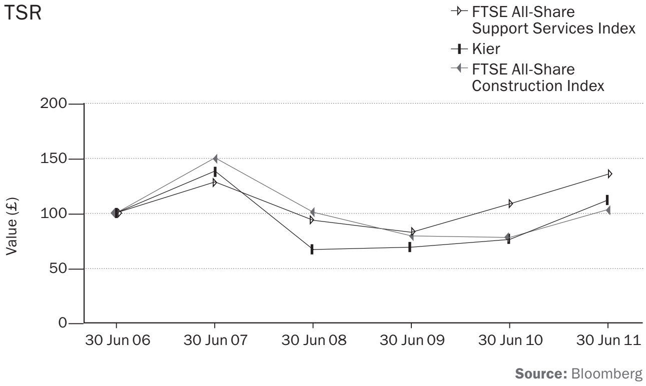
Share prices

The market price of a Kier Group plc share at close of business on 30 June 2011 was £13.60. The highest and lowest market prices of a Kier Group plc share during the year ended 30 June 2011 (in each case, at the close of business on the relevant day) were £14.18 and £8.87, respectively.

Total shareholder return

The following graphs chart cumulative TSR of the Company over the last five financial years. The graphs show the value, on 30 June 2011, of £100 invested in shares in the capital of the Company on 30 June 2006 compared with the value of £100 invested in the FTSE All Share Index, the FTSE All-Share Construction Index and the FTSE All-Share Support Services Index. The other points plotted are the values at intervening financial year ends.





Audited information

The information on pages 54 to 56, and page 58 have been audited by the Company's auditors, KPMG Audit Plc.

Approval of report

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

This report was approved by the Board on 14 September 2011 and signed on its behalf by:

C V Geoghegan
Chairman of the Remuneration Committee

Statement of directors' responsibilities

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

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

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
- the operating and financial review, which forms part of the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board by:

M P Sheffield
Chief Executive

H J Mursell
Group Finance Director

Independent auditors' report to the members of Kier Group plc

We have audited the financial statements of Kier Group plc for the year ended 30 June 2011 set out on pages 62 to 103. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IRFS) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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

As explained more fully in the directors' responsibilities statement set out on page 60, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 47 to 50 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 44, in relation to going concern;
- the part of the corporate governance statement on page 47 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

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

14 September 2011

Consolidated income statement

For the year ended 30 June 2011

	Notes	2011 Before exceptional items £m	2011 Exceptional items* £m	2011 Total £m	2010 Before exceptional items restated £m	2010 Exceptional items* restated £m	2010 Total £m
Revenue							
Group and share of joint ventures	2	**2,178.8**	**–**	**2,178.8**	2,098.7	–	2,098.7
Less share of joint ventures		**(55.8)**	**–**	**(55.8)**	(42.7)	–	(42.7)
Group revenue		**2,123.0**	**–**	**2,123.0**	2,056.0	–	2,056.0
Cost of sales		**(1,911.5)**	**(33.5)**	**(1,945.0)**	(1,847.0)	–	(1,847.0)
Gross profit		**211.5**	**(33.5)**	**178.0**	209.0	–	209.0
Administrative expenses		**(151.8)**	**(0.8)**	**(152.6)**	(151.2)	–	(151.2)
Credits on retirement benefit obligations		**–**	**25.7**	**25.7**	–	16.0	16.0
Movement in provision for fine imposed by the Office of Fair Trading		**–**	**15.6**	**15.6**	–	(18.0)	(18.0)
Share of post-tax results of joint ventures	14	**0.4**	**–**	**0.4**	(1.3)	–	(1.3)
Profit on disposal of joint venture	28b	**5.9**	**–**	**5.9**	4.2	–	4.2
Profit from operations	2	**66.0**	**7.0**	**73.0**	60.7	(2.0)	58.7
Finance income	5	**3.7**	**–**	**3.7**	3.1	–	3.1
Finance cost	5	**(4.2)**	**–**	**(4.2)**	(4.1)	–	(4.1)
Profit before tax	2	**65.5**	**7.0**	**72.5**	59.7	(2.0)	57.7
Income tax	9a	**(12.3)**	**2.1**	**(10.2)**	(12.7)	(4.5)	(17.2)
Profit for the year		**53.2**	**9.1**	**62.3**	47.0	(6.5)	40.5
Attributable to:							
Equity holders of the parent		**52.7**	**9.1**	**61.8**	46.2	(6.5)	39.7
Minority interests	12	**0.5**	**–**	**0.5**	0.8	–	0.8
		53.2	**9.1**	**62.3**	47.0	(6.5)	40.5
Earnings per share	11						
– basic		**141.7p**		**166.1p**	125.9p		108.2p
– diluted		**139.8p**		**163.9p**	124.9p		107.3p
Adjusted earnings per share (excluding the amortisation of intangible assets)	11						
– basic		**148.4p**			131.6p		
– diluted		**146.4p**			130.5p		

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

All results are derived from continuing operations.

Consolidated statement of comprehensive income

For the year ended 30 June 2011

	Notes	2011 £m	2010 £m
Profit for the year		**62.3**	40.5
Other comprehensive income/(loss)			
Cash flow hedge movements realised on sale of joint ventures		**10.1**	2.2
Share of joint venture fair value movements in cash flow hedging instruments		**(4.7)**	(5.1)
Fair value movements in Group cash flow hedging instruments		**–**	0.9
Actuarial gains/(losses) on defined benefit pension schemes		**12.6**	(10.2)
Other comprehensive income/(loss) before taxation		**18.0**	(12.2)
Deferred tax on items recognised directly in equity (including effect of change in tax rate)			
Share of joint venture cash flow hedging instruments		**(1.7)**	0.8
Group cash flow hedging instruments		**–**	(0.3)
Actuarial gains/(losses) on defined benefit pension schemes		**(7.8)**	2.9
Taxation on other comprehensive income/(loss)	9b	**(9.5)**	3.4
Other comprehensive income/(loss) for the year		**8.5**	(8.8)
Total comprehensive income for the year		**70.8**	31.7
Attributable to:			
Equity holders of the parent		**70.3**	30.9
Minority interests		**0.5**	0.8
		70.8	31.7

Consolidated statement of changes in equity

For the year ended 30 June 2011

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Attributable to equity holders of the parent £m	Minority interest £m	Total equity £m
At 30 June 2009	0.4	36.1	2.7	59.1	(9.8)	0.2	88.7	0.6	89.3
Profit for the year	–	–	–	39.7	–	–	39.7	0.8	40.5
Other comprehensive loss for the year	–	–	–	(7.3)	(1.5)	–	(8.8)	–	(8.8)
Dividends paid	–	–	–	(20.4)	–	–	(20.4)	(0.5)	(20.9)
Issue of own shares	–	2.7	–	–	–	–	2.7	–	2.7
Share-based payments charge	–	–	–	1.4	–	–	1.4	–	1.4
At 30 June 2010	0.4	38.8	2.7	72.5	(11.3)	0.2	103.3	0.9	104.2
Profit for the year	–	–	–	61.8	–	–	61.8	0.5	62.3
Other comprehensive income for the year	–	–	–	4.8	3.7	–	8.5	–	8.5
Dividends paid	–	–	–	(22.1)	–	–	(22.1)	(0.5)	(22.6)
Issue of own shares	–	8.1	–	–	–	–	8.1	–	8.1
Share-based payments charge	–	–	–	2.7	–	–	2.7	–	2.7
Tax on share-based payments	–	–	–	1.0	–	–	1.0	–	1.0
At 30 June 2011	**0.4**	**46.9**	**2.7**	**120.7**	**(7.6)**	**0.2**	**163.3**	**0.9**	**164.2**

Consolidated balance sheet

At 30 June 2011

	Notes	2011 £m	2010 £m
Non-current assets			
Intangible assets	12	**27.0**	27.7
Property, plant and equipment	13	**96.0**	84.4
Investment in joint ventures	14	**9.1**	23.9
Retirement benefit asset	8	**1.5**	–
Deferred tax assets	15	**34.4**	24.4
Trade and other receivables	18	**17.6**	15.3
Non-current assets		**185.6**	175.7
Current assets			
Inventories	16	**430.9**	406.8
Trade and other receivables	18	**329.9**	330.1
Income tax receivable		**3.0**	–
Other financial assets	25	**0.2**	–
Cash and cash equivalents	19	**195.1**	205.5
Current assets		**959.1**	942.4
Total assets		**1,144.7**	1,118.1
Current liabilities			
Other financial liabilities		**–**	(0.2)
Trade and other payables	20	**(799.2)**	(811.5)
Tax liabilities		**–**	(0.8)
Provisions	21	**(10.0)**	(5.5)
Current liabilities		**(809.2)**	(818.0)
Non-current liabilities			
Long-term borrowings	19	**(30.3)**	(30.3)
Other financial liabilities	25	**–**	(0.1)
Trade and other payables	20	**(68.3)**	(19.6)
Retirement benefit obligations	8	**(31.1)**	(87.2)
Provisions	21	**(41.2)**	(55.5)
Deferred tax liabilities	15	**(0.4)**	(3.2)
Non-current liabilities		**(171.3)**	(195.9)
Total liabilities		**(980.5)**	(1,013.9)
Net assets	2	**164.2**	104.2
Equity			
Share capital	22	**0.4**	0.4
Share premium		**46.9**	38.8
Capital redemption reserve		**2.7**	2.7
Retained earnings		**120.7**	72.5
Cash flow hedge reserve	22	**(7.6)**	(11.3)
Translation reserve	22	**0.2**	0.2
Equity attributable to equity holders of the parent		**163.3**	103.3
Minority interests	12	**0.9**	0.9
Total equity		**164.2**	104.2

The financial statements were approved by the Board of directors on 14 September 2011 and were signed on its behalf by:

M P Sheffield
H J Mursell
Directors

Consolidated cash flow statement

For the year ended 30 June 2011

	Notes	**2011 £m**	2010 £m
Cash flows from operating activities			
Profit before tax		**72.5**	57.7
Adjustments for exceptional items			
Credits on retirement benefit obligations		**(25.7)**	(16.0)
Movement in provision for fine imposed by the Office of Fair Trading		**(15.6)**	18.0
Acquisition costs		**0.8**	–
Property, land and work in progress write-downs		**33.5**	–
Other adjustments			
Share of post-tax trading results of joint ventures	14	**(0.4)**	1.3
Normal contributions to pension fund in excess of pension charge		**(6.8)**	(0.5)
Equity settled share-based payments charge	23	**2.7**	1.4
Amortisation and impairment of intangible assets	12	**3.4**	6.8
Depreciation charges	13	**14.5**	14.7
Profit on disposal of joint ventures		**(5.9)**	(4.2)
Profit on disposal of property, plant and equipment		**(4.3)**	(0.7)
Net finance expense	5	**0.5**	1.0
Operating cash flows before movements in working capital		**69.2**	79.5
Special contributions to pension fund		**(12.5)**	(21.2)
Payment of acquisition costs		**(0.8)**	–
Payment of fine imposed by the Office of Fair Trading		**(1.7)**	–
Payment of restructuring costs		**–**	(1.2)
Decrease in inventories		**19.9**	17.8
Decrease in receivables		**4.2**	1.0
(Decrease)/increase in payables		**(24.1)**	30.1
Increase in provisions		**7.7**	5.4
Cash inflow from operating activities		**61.9**	111.4
Dividends received from joint ventures	14	**0.1**	0.8
Interest received		**2.7**	3.9
Income taxes paid		**(11.4)**	(1.1)
Net cash generated from operating activities		**53.3**	115.0
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**14.8**	2.2
Proceeds from sale of joint ventures	28b	**13.7**	7.3
Purchases of property, plant and equipment		**(28.4)**	(11.0)
Purchase of intangible assets		**(1.4)**	(1.4)
Acquisition of subsidiaries	28a	**(37.7)**	(8.1)
Net investment in joint ventures	14	**(6.8)**	(0.6)
Net cash used in investing activities		**(45.8)**	(11.6)
Cash flows from financing activities			
Issue of shares		**0.2**	–
Interest paid		**(3.4)**	(2.4)
Dividends paid to equity holders of the parent		**(14.2)**	(17.7)
Dividends paid to minority interests		**(0.5)**	(0.5)
Net cash used in financing activities		**(17.9)**	(20.6)
(Decrease)/increase in cash and cash equivalents		**(10.4)**	82.8
Opening cash and cash equivalents		**205.5**	122.7
Closing cash and cash equivalents		**195.1**	205.5
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash and cash equivalents		**(10.4)**	82.8
Increase in long-term borrowings		**–**	(0.1)
Opening net funds		**175.2**	92.5
Closing net funds		**164.8**	175.2
Net funds consist of:			
Cash and cash equivalents		**195.1**	205.5
Long-term borrowings		**(30.3)**	(30.3)
Net funds	19	**164.8**	175.2

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 2011 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 14 September 2011.

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 99 to 101.

Basis of preparation

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

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

Profits on the disposal of Private Finance Initiative (PFI) investments have previously been disclosed as exceptional items. However as a result of the ongoing strategy to make regular disposals of PFI investments the directors believe that it is no longer appropriate to include such disposals as exceptional items in the Group's income statement as they are now expected to be recurring items. Disposals in the year to June 2011 have been reported within profit from operations before exceptional items and the results for the prior year to June 2010 have also been restated accordingly. The impact of this restatement was to increase profit after taxation before exceptional items for the year ended 30 June 2010 by £3.8m to £47.0m and decrease exceptional items by £3.8m to a charge of £6.5m. There was no impact on the Group's consolidated total profit for the year. In addition to the income statement notes 4, 9, and 11 have been restated.

Other than detailed above 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 2011:

IAS 32	'Amendments to financial instruments – classification of rights issues'
IFRS 1	'Amendment – additional exemptions for first time adopters'
IFRS 1	'Amendment – exemption from IFRS 7 comparatives'
IFRS 2	'Amendments to share-based payments – group cash settled'
IFRIC 17	'Distributions of non-cash assets to owners'
IFRIC 18	'Transfer of assets from customers'
IFRIC 19	'Extinguishing financial liabilities with equity instruments'

Improvements to IFRS's (2009)

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

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year ended 30 June 2011:

IAS 24	'Related party disclosures (revised 2009)'
IAS 27	'Separate financial statements (revised 2011)'
IAS 28	'Investments in associates and joint ventures (revised 2011)'
IFRS 9	'Financial instruments'
IFRS 10	'Consolidated financial statements'
IFRS 11	'Joint arrangements'
IFRS 12	'Disclosures of interest in other entities'
IFRS 13	'Fair value measurement'
IFRIC 14	'Amendment – prepayments of a minimum funding requirement'

Improvements to IFRS's (2010)

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.

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 2011. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases.

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

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

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

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed

1 Significant accounting policies continued

as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(b) Joint ventures

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

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

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

Goodwill and other intangible assets

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

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

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

Other intangible assets which comprise contract rights 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 significant by their size and nature to require separate disclosure are reported separately in the income statement in the column headed 'Exceptional items'.

Revenue and profit recognition

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

Revenue and profit are recognised as follows:

a) Construction contracts

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

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

The general principles for profit recognition are as follows:

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

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

b) Services

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

c) Private housing and land sales

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

d) Property development

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

1 Significant accounting policies continued

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

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

e) PFI service concession agreements

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

Pre-contract costs

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

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

Property, plant and equipment and depreciation

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

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

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

Leases

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 comprehensive income in the year.

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

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

(b) Share-based payments

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

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

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

Finance income and costs

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

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

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.

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.

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.

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 present value.

1 Significant accounting policies continued

(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 investment in joint ventures.

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

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

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

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

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

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

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

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

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

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

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

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

Full details of the fair values of assets and liabilities acquired in the acquisition are presented in note 28.

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

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

Details of the assumptions used are included in note 8.

2 Segmental reporting

The Group comprises four divisions: Construction, Services, Property and Homes and it is on this basis that the Group reports its segmental information.

Segment information is based on the information provided to the chief executive who is the chief operating decision maker. The segments are strategic business units with separate management and have different core customers and offer different services. The segments are discussed in the chief executive's review on pages 6 to 29.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies on pages 66 to 70. The Group evaluates segment information on the basis of profit or loss from operations before exceptional items, interest and income tax expense. The segment results that are reported to the chief executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Year to 30 June 2011	Construction £m	Services £m	Property £m	Homes £m	Centre £m	Group £m
Revenue[1]						
Group and share of joint ventures	**1,444.5**	**483.8**	**97.4**	**153.1**	**–**	**2,178.8**
Less share of joint ventures	(1.9)	–	(53.9)	–	–	**(55.8)**
Group revenue	1,442.6	483.8	43.5	153.1	–	**2,123.0**
Profit						
Group operating profit	39.3	18.3	3.2	4.1	(5.2)	**59.7**
Share of joint ventures' operating profit	–	–	2.0	0.1	–	**2.1**
Profit on disposal of joint ventures	–	–	5.9	–	–	**5.9**
Group and share of joint ventures	**39.3**	**18.3**	**11.1**	**4.2**	**(5.2)**	**67.7**
Share of joint ventures – finance cost	–	–	(1.4)	–	–	**(1.4)**
– tax	–	–	(0.3)	–	–	**(0.3)**
Profit from operations before exceptional items	**39.3**	**18.3**	**9.4**	**4.2**	**(5.2)**	**66.0**
Exceptional items						
Past service credit on retirement benefit obligation	–	–	–	–	25.7	**25.7**
Movement in provision for fine imposed by the Office of Fair Trading	15.6	–	–	–	–	**15.6**
Property, land and work in progress write-downs	–	–	(1.9)	(31.0)	(0.6)	**(33.5)**
Acquisition costs	–	–	(0.6)	–	(0.2)	**(0.8)**
Profit from operations	**54.9**	**18.3**	**6.9**	**(26.8)**	**19.7**	**73.0**
Finance income/(cost)[2]	15.3	(0.4)	0.7	(12.6)	(3.5)	**(0.5)**
Profit before tax	**70.2**	**17.9**	**7.6**	**(39.4)**	**16.2**	**72.5**
Balance sheet						
Investment in joint ventures	0.1	–	9.0	–	–	**9.1**
Other assets	332.0	121.5	120.8	340.9	25.3	**940.5**
Liabilities excluding long-term debt	(618.2)	(117.2)	(76.0)	(30.3)	(108.5)	**(950.2)**
Net operating (liabilities)/assets	(286.1)	4.3	53.8	310.6	(83.2)	**(0.6)**
Cash, net of debt	422.8	27.8	(34.0)	(259.0)	7.2	**164.8**
Net assets	**136.7**	**32.1**	**19.8**	**51.6**	**(76.0)**	**164.2**
Other information						
Inter-segmental revenue	3.6	35.7	0.2	5.9	–	**45.4**
Amortisation of intangible assets	–	3.4	–	–	–	**3.4**
Capital expenditure	9.6	15.7	–	0.1	3.2	**28.6**
Depreciation of property, plant and equipment	4.9	6.7	0.1	0.1	2.7	**14.5**

[1] Revenue is stated after the exclusion of inter-segmental revenue.

[2] Interest was (charged)/credited to the divisions at a notional rate of 4.5% and 4.0% respectively.

2 Segmental reporting continued

Year to 30 June 2010	Construction £m	Services £m	Property £m	Homes £m	Centre £m	Group £m
Revenue[1]						
Group and share of joint ventures	1,417.0	470.7	53.3	157.7	–	2,098.7
Less share of joint ventures	(1.7)	–	(41.0)	–	–	(42.7)
Group revenue	1,415.3	470.7	12.3	157.7	–	2,056.0
Profit						
Group operating profit	36.2	18.5	0.4	9.9	(7.2)	57.8
Share of joint ventures' operating profit	–	–	(0.1)	–	–	(0.1)
Profit on disposal of joint ventures	–	–	4.2	–	–	4.2
Group and share of joint ventures	36.2	18.5	4.5	9.9	(7.2)	61.9
Share of joint ventures – finance cost	–	–	(1.3)	–	–	(1.3)
– tax	–	–	0.1	–	–	0.1
Profit from operations before exceptional items	36.2	18.5	3.3	9.9	(7.2)	60.7
Exceptional items						
Past service credit on retirement benefit obligation	–	–	–	–	16.0	16.0
Movement on provision for fine imposed by the Office of Fair Trading	(18.0)	–	–	–	–	(18.0)
Profit from operations	18.2	18.5	3.3	9.9	8.8	58.7
Finance income/(cost)[2]	14.0	0.3	0.2	(13.2)	(2.3)	(1.0)
Profit before tax	32.2	18.8	3.5	(3.3)	6.5	57.7
Balance sheet						
Investment in joint ventures	0.1	–	23.8	–	–	23.9
Other assets	322.2	125.6	28.1	368.2	44.6	888.7
Liabilities excluding long-term debt	(631.9)	(129.3)	(18.6)	(39.4)	(164.4)	(983.6)
Net operating (liabilities)/assets	(309.6)	(3.7)	33.3	328.8	(119.8)	(71.0)
Cash, net of debt	417.8	32.3	(19.8)	(248.5)	(6.6)	175.2
Net assets	108.2	28.6	13.5	80.3	(126.4)	104.2
Other information						
Inter-segmental revenue	12.0	42.9	1.9	3.6	–	60.4
Amortisation of intangible assets	–	2.9	–	–	–	2.9
Capital expenditure	1.6	6.2	–	–	2.8	10.6
Depreciation of property, plant and equipment	6.5	6.4	–	0.2	1.6	14.7

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

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

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

3 Profit for the year

Profit before taxation is stated after charging:

	2011 £m	2010 £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	**0.7**	0.6
Taxation services	**–**	–
Other services	**0.3**	0.1
Hire of plant and machinery	**20.5**	16.7
Operating lease rentals:		
Land and buildings	**4.1**	3.5
Plant and machinery	**13.0**	9.1

4 Exceptional items

	2011 £m	2010 restated £m
Past service credits on retirement benefit obligations	**25.7**	16.0
Movement in provision for fine imposed by the Office of Fair Trading	**15.6**	(18.0)
Property, land and work in progress write-downs:		
Land and work in progress held for development	**(32.6)**	–
Property	**(0.9)**	–
	(33.5)	–
Acquisition costs	**(0.8)**	–
Exceptional items before tax	**7.0**	(2.0)
Taxation	**2.1**	(4.5)
Exceptional items after tax	**9.1**	(6.5)

Exceptional items for the prior year have been restated to reflect the change in accounting policy to include profits on disposal of PFI investments within profit from operations before exceptional items as detailed in note 1.

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

The credits arising in the prior year and the current year have been accounted for following the guidance set out in UITF48 'Accounting implications of the replacement of RPI with CPI for retirement benefits'. As the Group had a pre-existing constructive obligation under both the Kier Sheffield LLP scheme and the Kier Group Pension Scheme, and the changes from RPI to CPI were notified to scheme members, the past service credits have been accounted for as a change in benefits and recognised in the income statement in both years.

The gain of £25.7m in the current year reflects the impact of this change on the Kier Group Pension Scheme. This change only affects certain elements of the increase in pensions payable by the scheme. Deferred revaluation and the majority of increases to pensions in payment continue to be based in RPI. The gain in the prior year of £16.0m reflects the impact of this change on the pension scheme in which the employees of Kier Sheffield LLP participate.

4 Exceptional items continued

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

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

During the current year external costs of £0.8m have been incurred and expensed on the acquisition of Beco Limited (£0.2m) in November 2010 and Kier Developments Limited (£0.6m) in April 2011. Further details of these acquisitions are provided in note 28.

5 Finance income and cost

	2011 £m	2010 £m
Finance income		
Interest receivable on bank deposits	**1.3**	1.2
Interest receivable on loans to joint ventures	**2.4**	1.9
	3.7	3.1
Finance cost		
Interest payable on bank overdrafts and loans	**(0.7)**	(0.2)
Interest payable on long-term borrowings	**(2.0)**	(2.0)
Unwinding of discount on long-term liabilities	**(1.5)**	(1.9)
	(4.2)	(4.1)

6 Information relating to employees

	Note	**2011 No.**	2010 No.
Average number of persons employed during the year including executive directors was:			
United Kingdom		**10,128**	10,319
Rest of world		**557**	1,287
		10,685	11,606
		£m	£m
Group staff costs are as follows:			
United Kingdom		**373.6**	372.4
Rest of world		**8.4**	8.9
		382.0	381.3
Comprising:			
Wages and salaries		**333.6**	326.4
Social security costs		**28.9**	28.9
Defined benefit pension scheme costs		**4.8**	11.9
Contributions to defined contribution pension schemes		**11.6**	12.6
Share-based payment plans	23	**3.1**	1.5
		382.0	381.3

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 51 to 59.

8 Retirement benefit obligations

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

Kier Group Pension Scheme
This is the principal scheme and includes a defined benefit section and a defined contribution 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 2010 using the projected unit method. The market value of the Scheme's assets at that date were £622.0m which represented approximately 88% of the benefits that had accrued to members at that date, after allowing for future increases in salaries. The contributions paid during the year were £22.8m (2010: £32.5m) which include special contributions of £12.5m (2010: £21.2m) to fund the past service deficit.

Going forward contributions will include an allowance for funding the past service deficit identified at the 2010 valuation date. The Group expects to pay contributions for future service of £9.6m, being 20.5% of pensionable pay, plus £8.0m for funding the past service deficit in the year to June 2012.

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 £6.7m (2010: £6.0m).

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

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

Kier Sheffield LLP's pension costs in respect of the defined benefit scheme are assessed on the advice of an independent qualified actuary using the projected unit method. The contributions paid during the year were £1.3m (2010: £1.1m). Going forward Kier Sheffield LLP expects to pay contributions for future service at the rate of 11.3% of pensionable pay which the fund's actuary has determined is sufficient to meet ongoing benefits.

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

8 Retirement benefit obligations continued

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

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

Kier Group Pension Scheme

	2011 %	2010 %	2009 %
Rate of general increases in salaries	**3.4**	3.0	3.3
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.4**	3.1	3.2
Discount rate	**5.5**	5.3	6.2
Inflation rate (RPI)	**3.6**	3.2	3.3
Inflation rate (CPI)	**2.7**	n/a	n/a

The mortality assumptions adopted estimate life expectancies from age 60 for men and women of 27.4 years and 27.9 years respectively for a future pensioner.

	Long-term rate of return expected			Value		
	2011 %	2010 %	2009 %	2011 £m	2010 £m	2009 £m
Land				**13.8**	13.8	–
Equities, property and other return-seeking assets				**527.6**	477.1	415.6
PFI assets				**4.5**	–	–
Government bonds, cash, swaps and collateral				**134.3**	120.3	82.8
Total market value of assets	**7.0**	6.8	7.2	**680.2**	611.2	498.4
Present value of liabilities				**(711.3)**	(689.8)	(594.5)
Deficit				**(31.1)**	(78.6)	(96.1)
Related deferred tax asset				**8.1**	22.0	26.9
Net pension liability				**(23.0)**	(56.6)	(69.2)

Kier Sheffield LLP

	2011 %	2010 %	2009 %
Rate of general increases in salaries	**4.6**	4.2	4.8
Rate of increase to pensions in payment liable for Limited Price Indexation	**2.7**	2.5	3.3
Discount rate	**5.5**	5.3	6.2
Inflation rate (RPI)	**3.6**	3.2	3.3
Inflation rate (CPI)	**2.7**	2.5	n/a

The mortality assumptions adopted estimate life expectancies from age 60 for men and women of 27.5 years and 30.6 years respectively for a future pensioner.

	Long-term rate of return expected			Value		
	2011 %	2010 %	2009 %	2011 £m	2010 £m	2009 £m
Equities and property				**120.9**	99.6	81.4
Corporate bonds				**11.2**	11.1	9.7
Government bonds				**27.4**	24.4	25.0
Total market value of assets	**7.0**	6.7	6.8	**159.5**	135.1	116.1
Present value of liabilities				**(158.0)**	(143.7)	(134.7)
Surplus/(deficit)				**1.5**	(8.6)	(18.6)
Related deferred tax (liability)/asset				**(0.4)**	2.4	5.2
Net pension asset/(liability)				**1.1**	(6.2)	(13.4)

8 Retirement benefit obligations continued

Pension sensitivity

The assumption considered to be the most significant is the discount rate adopted. If the discount rate were to increase by 0.1% the Kier Group Pension Scheme deficit would decrease by £11.0m, and the Kier Sheffield LLP deficit would decrease by £3.0m.

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

	2011			2010		
	Kier Group Pension Scheme £m	**Kier Sheffield LLP £m**	**Total £m**	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Total £m
(Charged)/credited to operating profit in the income statement						
Current service cost	**(8.4)**	**(2.7)**	**(11.1)**	(8.5)	(2.3)	(10.8)
Expected return on scheme assets	**41.0**	**9.0**	**50.0**	35.7	7.9	43.6
Interest cost on scheme liabilities	**(36.1)**	**(7.6)**	**(43.7)**	(36.3)	(8.4)	(44.7)
Past service credits	**25.7**	**–**	**25.7**	–	16.0	16.0
	22.2	**(1.3)**	**20.9**	(9.1)	13.2	4.1
Amount recognised in statement of comprehensive income						
Actual return less expected return on scheme assets	**31.1**	**15.9**	**47.0**	71.3	11.5	82.8
Experience gains and losses on scheme liabilities	**(28.6)**	**(5.8)**	**(34.4)**	(77.2)	(15.8)	(93.0)
	2.5	**10.1**	**12.6**	(5.9)	(4.3)	(10.2)
Changes in the fair value of scheme assets						
Fair value at 1 July	**611.2**	**135.1**	**746.3**	498.4	116.1	614.5
Expected return on scheme assets	**41.0**	**9.0**	**50.0**	35.7	7.9	43.6
Actual return less expected return on scheme assets	**31.1**	**15.9**	**47.0**	71.3	11.5	82.8
Contributions by the employer	**22.8**	**1.3**	**24.1**	32.5	1.1	33.6
Contributions by scheme participants	**0.1**	**1.3**	**1.4**	0.1	1.1	1.2
Net benefits paid out	**(26.0)**	**(3.1)**	**(29.1)**	(26.8)	(2.6)	(29.4)
Fair value at 30 June	**680.2**	**159.5**	**839.7**	611.2	135.1	746.3
Changes in the present value of the defined benefit obligation						
Fair value at 1 July	**(689.8)**	**(143.7)**	**(833.5)**	(594.5)	(134.7)	(729.2)
Current service cost	**(8.4)**	**(2.7)**	**(11.1)**	(8.5)	(2.3)	(10.8)
Interest cost on scheme liabilities	**(36.1)**	**(7.6)**	**(43.7)**	(36.3)	(8.4)	(44.7)
Past service credits	**25.7**	**–**	**25.7**	–	16.0	16.0
Experience gains and losses on scheme liabilities	**(28.6)**	**(5.8)**	**(34.4)**	(77.2)	(15.8)	(93.0)
Contributions by scheme participants	**(0.1)**	**(1.3)**	**(1.4)**	(0.1)	(1.1)	(1.2)
Net benefits paid out	**26.0**	**3.1**	**29.1**	26.8	2.6	29.4
Fair value at 30 June	**(711.3)**	**(158.0)**	**(869.3)**	(689.8)	(143.7)	(833.5)
Amounts included in the balance sheet						
Fair value of scheme assets	**680.2**	**159.5**	**839.7**	611.2	135.1	746.3
Net present value of the defined benefit obligation	**(711.3)**	**(158.0)**	**(869.3)**	(689.8)	(143.7)	(833.5)
Net (deficit)/surplus	**(31.1)**	**1.5**	**(29.6)**	(78.6)	(8.6)	(87.2)
Related deferred tax asset/(liability)	**8.1**	**(0.4)**	**7.7**	22.0	2.4	24.4
Net pension (liability)/asset	**(23.0)**	**1.1**	**(21.9)**	(56.6)	(6.2)	(62.8)

8 Retirement benefit obligations continued

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of scheme assets	**839.7**	746.3	614.5	669.4	643.4
Net present value of the defined benefit obligation	**(869.3)**	(833.5)	(729.2)	(716.1)	(662.1)
Restriction on pension surplus	**–**	–	–	–	(5.1)
Net deficit	**(29.6)**	(87.2)	(114.7)	(46.7)	(23.8)
Related deferred tax asset	**7.7**	24.4	32.1	13.1	6.8
Net pension liability	**(21.9)**	(62.8)	(82.6)	(33.6)	(17.0)
Difference between expected and actual return on scheme assets	**47.0**	82.8	(103.3)	(15.5)	9.5
Experience gains and losses on scheme liabilities	**(34.4)**	(93.0)	0.1	18.1	18.1

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

- in December 2009 £13.2m which was settled through the transfer of residential land at market value as determined by DTZ, an independent firm of chartered surveyors; and
- in June 2011 £4.5m which was settled through the transfer of the Group's 50% interest in Sheffield Schools PFI project (Academy Services (Sheffield) Holdings Limited). These amounts have been included as a contribution received by the scheme.

The past service credits arose due to changes announced by the Government to use the CPI in place of the RPI to determine pension increases. These has been accounted for as a change in benefits and recognised in the income statement as exceptional credits. Further details of these credits are provided in note 4.

9 Income tax

a) Recognised in the income statement

	2011			2010		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items restated £m	Exceptional items restated £m	Total £m
Current tax expense						
UK corporation tax	**13.0**	**(5.8)**	**7.2**	8.7	–	8.7
Overseas tax	**(0.1)**	**–**	**(0.1)**	0.1	–	0.1
Adjustments for prior years	**0.5**	**–**	**0.5**	(0.3)	–	(0.3)
Total current tax	**13.4**	**(5.8)**	**7.6**	8.5	–	8.5
Deferred tax expense						
Origination and reversal of temporary differences	**2.8**	**3.7**	**6.5**	3.6	4.5	8.1
Effect of change in tax rate	**(1.8)**	**–**	**(1.8)**	–	–	–
Adjustments for prior years	**(2.1)**	**–**	**(2.1)**	0.6	–	0.6
Total deferred tax	**(1.1)**	**3.7**	**2.6**	4.2	4.5	8.7
Total income tax expense in the income statement	**12.3**	**(2.1)**	**10.2**	12.7	4.5	17.2
Reconciliation of effective tax rate						
Profit before tax	**65.5**	**7.0**	**72.5**	59.7	(2.0)	57.7
Adjust: tax on joint ventures included above	**0.3**	**–**	**0.3**	(0.1)	–	(0.1)
Adjusted profit before tax	**65.8**	**7.0**	**72.8**	59.6	(2.0)	57.6
Income tax at UK corporation tax rate of 27.5% (2010: 28%)	**18.1**	**1.9**	**20.0**	16.7	(0.6)	16.1
Non-deductible expenses	**0.7**	**(4.0)**	**(3.3)**	1.2	5.1	6.3
Tax relief on expenses not recognised in the income statement	**(0.4)**	**–**	**(0.4)**	(4.5)	–	(4.5)
Effect of change in tax rate	**(1.8)**	**–**	**(1.8)**	–	–	–
Profits attributable to minority interest not taxable	**–**	**–**	**–**	(0.1)	–	(0.1)
Effect of tax rates in foreign jurisdictions	**(0.1)**	**–**	**(0.1)**	(0.1)	–	(0.1)
Capital gains not taxed	**(2.3)**	**–**	**(2.3)**	(0.8)	–	(0.8)
Tax losses utilised not recognised as a deferred tax asset	**–**	**–**	**–**	(0.1)	–	(0.1)
(Over)/under provision in respect of prior years	**(1.6)**	**–**	**(1.6)**	0.3	–	0.3
Total tax (including joint ventures)	**12.6**	**(2.1)**	**10.5**	12.6	4.5	17.1
Tax on joint ventures	**(0.3)**	**–**	**(0.3)**	0.1	–	0.1
Group income tax expense	**12.3**	**(2.1)**	**10.2**	12.7	4.5	17.2

9 Income tax continued

b) Recognised in the statement of comprehensive income

	2011 £m	2010 £m
Deferred tax expense (including effect of change in tax rate)		
Fair value movements on cash flow hedging instruments:		
Group	–	0.3
Joint ventures	1.7	(0.8)
Actuarial gains/(losses) on defined benefit pension schemes	7.8	(2.9)
Total income tax charge/(credit) in the statement of comprehensive income	9.5	(3.4)

c) Factors that may affect future tax charges

The Chancellor has announced that the UK corporation tax rate will reduce from 28% to 23% over a period of four years by April 2014. The first reduction from 28% to 26% was substantively enacted on 29 March 2011 and is effective from 1 April 2011. This has had the effect of reducing the net deferred tax asset included in the above figures by £2.8m, with £1.8m being credited to the income statement and £4.6m being charged directly to the statement of comprehensive income.

The reduction in the UK corporation tax rate from 26% to 25% was substantively enacted on 5 July 2011 and is effective from 1 April 2012. This will reduce the Group's future current tax charge accordingly.

If the rate change from 26% to 25% had been substantively enacted at 30 June 2011 it would have had the effect of reducing the net deferred tax asset of £29.9m (Group £34.0m asset, joint ventures £4.1m liability) held at this date by £2.0m, with £0.3m being credited to the income statement and £2.3m being charged directly to the statement of comprehensive income.

It has not been possible to quantify the full anticipated effect of the further 2% rate reduction, although this will further reduce the Group's future tax charge and reduce the deferred tax assets accordingly.

d) Tax losses

At the balance sheet date the Group has unused income tax losses of £10.9m (2010: £2.5m) available for offset against future profits. A deferred tax asset has been recognised in respect of £8.4m (2010: £nil) 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:

	2011 £m	2010 £m
Final dividend for the year ended 30 June 2010 of 39.5 pence (2009 of 37.0 pence)	14.6	13.6
Interim dividend for the year ended 30 June 2011 of 20.0 pence (2010 of 18.5 pence)	7.5	6.8
	22.1	20.4

The proposed final dividend of 44.0 pence (2010: 39.5 pence) bringing the total dividend for the year to 64.0 pence (2010: 58.0 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 £16.6m will be paid on 30 November 2011 to shareholders on the register at the close of business on 23 September 2011. A scrip dividend alternative will be offered.

11 Earnings per share

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

	2011		2010	
	Basic £m	**Diluted £m**	Basic restated £m	Diluted restated £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**61.8**	**61.8**	39.7	39.7
Exclude: exceptional items	**(7.0)**	**(7.0)**	2.0	2.0
Tax thereon	**(2.1)**	**(2.1)**	4.5	4.5
Earnings excluding exceptional items	**52.7**	**52.7**	46.2	46.2
Add: amortisation of intangible assets	**3.4**	**3.4**	2.9	2.9
Less: tax on amortisation of intangible assets	**(0.9)**	**(0.9)**	(0.8)	(0.8)
Adjusted earnings	**55.2**	**55.2**	48.3	48.3
	million	**million**	million	million
Weighted average number of shares	**37.2**	**37.2**	36.7	36.7
Weighted average impact of LTIP and Sharesave Scheme	**–**	**0.5**	–	0.3
Weighted average number of shares used for earnings per share	**37.2**	**37.7**	36.7	37.0
	pence	**pence**	pence	pence
Earnings per share	**166.1**	**163.9**	108.2	107.3
Earnings per share (excluding exceptional items)	**141.7**	**139.8**	125.9[1]	124.9[1]
Adjusted earnings per share (excluding exceptional items and the amortisation of intangible assets)	**148.4**	**146.4**	131.6[1]	130.5[1]

[1] The figures for the prior year have been restated to reflect the change in accounting policy to include profits on disposal of PFI investments within the profit from operations before exceptional items as detailed in note 1.

12 Intangible assets

	Goodwill £m	Building maintenance contract rights £m	Other contract rights £m	Total £m
Cost				
At 1 July 2010	10.7	29.1	3.3	43.1
Acquired on acquisitions	2.7	–	–	2.7
At 30 June 2011	**13.4**	**29.1**	**3.3**	**45.8**
Amortisation				
At 1 July 2010	–	15.4	–	15.4
Charge for the year	–	3.1	0.3	3.4
At 30 June 2011	**–**	**18.5**	**0.3**	**18.8**
Net book value				
At 30 June 2011	**13.4**	**10.6**	**3.0**	**27.0**
At 30 June 2010	10.7	13.7	3.3	27.7
Cost				
At 1 July 2009	5.2	18.5	–	23.7
Acquired on acquisitions	5.5	6.5	7.2	19.2
Additions	–	4.1	–	4.1
Impairments	–	–	(3.9)	(3.9)
At 30 June 2010	10.7	29.1	3.3	43.1
Amortisation				
At 1 July 2009	–	12.5	–	12.5
Charge for the year	–	2.9	–	2.9
At 30 June 2010	–	15.4	–	15.4
Net book value				
At 30 June 2010	10.7	13.7	3.3	27.7
At 30 June 2009	5.2	6.0	–	11.2

Goodwill at 1 July 2010 relates to the acquisition of Kier Partnership Homes Limited (£5.2m), Kent LEP (£0.7m) and Pure Recycling Limited (£4.8m). The goodwill on acquisitions during the year relates to the acquisition of Beco Limited (£2.6m) and Kier Developments Limited (£0.1m) (see note 28). These balances have been subject to an annual impairment review based upon projected profits of each business.

Building maintenance contract rights relate to the acquisition by the Group of the business and assets of the construction and building services operations of Sheffield City Council (£19.9m), Harlow Council (£0.8m), Stoke-on-Trent City Council (£1.9m) and North Tyneside Council (£6.5m). These are being amortised on a straight-line basis over the remaining lives of the contracts. These contracts are in partnership with the respective councils who have retained a participatory ownership interest and the rights for a minority share of the profits. These profit shares are reflected in the income statement as attributable to minority interests. The amounts for the year to June 2011 are, Sheffield City Council £nil (2010: £0.3m), Harlow Council £0.2m (2010: £0.3m), Stoke-on-Trent City Council £0.2m (2010: £0.1m) and North Tyneside Council £0.1m (2010: £0.1m).

Other contract rights relate to the acquisition of the Kent LEP (£1.3m) and Pure Recycling Limited (£2.0m). These balances are being amortised on a straight-line basis over the lives of the contracts.

13 Property, plant and equipment

	Land and buildings £m	Plant, vehicles and fixtures £m	Mining assets £m	Total £m
Cost				
At 1 July 2010	42.6	106.7	23.3	172.6
Acquired on acquisitions	9.0	0.1	–	9.1
Additions	2.0	18.5	8.1	28.6
Disposals	(9.6)	(9.7)	–	(19.3)
Currency realignment	–	(0.4)	–	(0.4)
At 30 June 2011	**44.0**	**115.2**	**31.4**	**190.6**
Accumulated depreciation				
At 1 July 2010	3.5	65.1	19.6	88.2
Charge for the year	0.8	11.3	2.4	14.5
Disposals	(0.3)	(8.5)	–	(8.8)
Write-downs	0.9	–	–	0.9
Currency realignment	–	(0.2)	–	(0.2)
At 30 June 2011	**4.9**	**67.7**	**22.0**	**94.6**
Net book value				
At 30 June 2011	**39.1**	**47.5**	**9.4**	**96.0**
At 30 June 2010	39.1	41.6	3.7	84.4
Cost				
At 1 July 2009	39.4	104.7	22.6	166.7
Acquired on acquisitions	2.5	0.2	–	2.7
Additions	0.7	9.2	0.7	10.6
Disposals	–	(8.3)	–	(8.3)
Currency realignment	–	0.9	–	0.9
At 30 June 2010	42.6	106.7	23.3	172.6
Accumulated depreciation				
At 1 July 2009	2.8	60.6	16.4	79.8
Charge for the year	0.7	10.8	3.2	14.7
Disposals	–	(6.8)	–	(6.8)
Currency realignment	–	0.5	–	0.5
At 30 June 2010	3.5	65.1	19.6	88.2
Net book value				
At 30 June 2010	39.1	41.6	3.7	84.4
At 30 June 2009	36.6	44.1	6.2	86.9

14 Investment in joint ventures

a) Movements in year

	2011 £m	2010 £m
Investment in joint ventures		
At 1 July	**23.9**	30.4
Additions	**6.8**	0.8
Loan repayments	**–**	(0.2)
Disposals	**(25.6)**	(2.9)
Share of trading results after taxation	**0.4**	(1.3)
Net expense recognised directly in equity	**5.4**	(2.9)
Deferred tax on items recognised directly in equity	**(1.7)**	0.8
Dividends received	**(0.1)**	(0.8)
At 30 June	**9.1**	23.9

During the year to June 2011 the Group disposed of its interest in three PFI joint ventures with a book value of £7.3m. In addition the Group increased its interest in Kier Developments Limited from 50% to 100% and as a consequence the £18.3m book value of its existing investment has been treated as a disposal from investment in joint ventures. Further details of these disposals are provided in note 28.

b) Analysis of investment

	2011	2010		
	Total £m	Kier Developments Limited £m	Other joint ventures £m	Total £m
Investment in joint ventures				
Property, plant and equipment	**3.0**	8.7	3.6	12.3
Deferred tax assets	**2.8**	2.6	4.4	7.0
Other non-current assets	**167.0**	–	209.7	209.7
Current assets	**28.0**	72.5	31.7	104.2
Gross assets	**200.8**	83.8	249.4	333.2
Payables – current	**(14.4)**	(3.3)	(20.4)	(23.7)
Long-term borrowings	**(174.7)**	(82.4)	(215.3)	(297.7)
Financial instruments	**(10.3)**	(0.7)	(15.0)	(15.7)
Deferred tax liabilities	**(6.9)**	–	(6.7)	(6.7)
Net external liabilities	**(5.5)**	(2.6)	(8.0)	(10.6)
Loans provided to joint ventures	**14.6**	20.3	14.2	34.5
Total investment in joint ventures	**9.1**	17.7	6.2	23.9

The Group has provided a guarantee of £7.5m to support a £15.0m borrowing facility of a joint venture, Solum Regeneration LP. Borrowings of £3.9m were outstanding on this facility at 30 June 2011. Other than as disclosed above the liabilities of the joint ventures are without recourse to the Group. Details of the Group's interests in joint ventures are given on page 103.

15 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting year.

	Intangible assets £m	Property, plant and equipment £m	Short-term temporary differences £m	Retirement benefit obligations £m	Tax losses £m	Total £m
At 1 July 2009	–	(2.8)	(3.5)	32.1	2.8	28.6
Acquired on acquisitions	(1.3)	–	–	–	–	(1.3)
(Charge)/credit to income	0.4	1.7	2.6	(10.6)	(2.8)	(8.7)
Credit/(charge) direct to comprehensive income	–	–	(0.3)	2.9	–	2.6
At 30 June 2010	(0.9)	(1.1)	(1.2)	24.4	–	21.2
Acquired on acquisitions	–	–	20.0	–	2.2	22.2
(Charge)/credit to income	0.1	0.6	5.6	(8.9)	–	(2.6)
Charge direct to comprehensive income	–	–	–	(7.8)	–	(7.8)
Share-based payments charged to equity	–	–	1.0	–	–	1.0
At 30 June 2011	**(0.8)**	**(0.5)**	**25.4**	**7.7**	**2.2**	**34.0**

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

	Assets		Liabilities		Net	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Intangible assets	**–**	–	**(0.8)**	(0.9)	**(0.8)**	(0.9)
Property, plant and equipment	**3.8**	2.9	**(4.3)**	(4.0)	**(0.5)**	(1.1)
Inventories	**19.1**	2.3	**–**	(0.1)	**19.1**	2.2
Payables	**19.7**	14.5	**(16.0)**	(18.9)	**3.7**	(4.4)
Retirement benefit obligations	**8.1**	24.4	**(0.4)**	–	**7.7**	24.4
Share-based payments	**2.6**	1.0	**–**	–	**2.6**	1.0
Tax losses	**2.2**	–	**–**	–	**2.2**	–
Total	**55.5**	45.1	**(21.5)**	(23.9)	**34.0**	21.2
Set-off tax	**(21.1)**	(20.7)	**21.1**	20.7	**–**	–
Net tax assets/(liabilities)	**34.4**	24.4	**(0.4)**	(3.2)	**34.0**	21.2

16 Inventories

	2011 £m	2010 £m
Raw materials and consumables	**4.8**	6.3
Construction contracts in progress	**38.2**	33.2
Land and work in progress held for development	**379.1**	359.0
Other work in progress	**8.8**	8.3
	430.9	406.8

Land and work in progress held for development at 30 June 2011 is shown after making a write-down of £32.6m (2010: £nil) to reduce the values on certain sites to net realisable value.

17 Construction contracts

Contracts in progress at the balance sheet date comprise contract costs incurred plus recognised profits less losses of £7,202.5m (2010: £7,046.8m), less progress billings received and receivable of £7,317.0m (2010: £7,144.8m).

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

	2011 £m	2010 £m
Inventories	**38.2**	33.2
Trade and other payables	**(152.7)**	(131.1)
	(114.5)	(97.9)

18 Trade and other receivables

	2011 £m	2010 £m
Current:		
Trade receivables	**233.8**	248.7
Construction contract retentions	**44.2**	44.7
Amounts receivable from joint ventures	**2.0**	1.3
Other receivables	**22.2**	12.9
Prepayments and accrued income	**27.7**	22.5
	329.9	330.1
Non-current:		
Construction contract retentions	**17.6**	15.2
Other receivables	**–**	0.1
	17.6	15.3

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 25.

	2011 £m	2010 £m
Bank balances and cash in hand	**144.4**	186.8
Bank deposits with a maturity of less than three months	**50.7**	18.7
Cash and cash equivalents	**195.1**	205.5
Long-term borrowings	**(30.3)**	(30.3)
Net funds in the statement of cash flows	**164.8**	175.2

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 is detailed in note 25.

Cash and cash equivalents include £19.8m (2010: £4.9m) being the Group's share of cash and cash equivalents held by joint arrangements and £52.8m (2010: £46.8m) of cash that cannot be offset against other Group bank balances.

20 Trade and other payables

	2011 £m	2010 restated £m
Current:		
Payments received on account	**2.0**	0.3
Trade payables	**518.8**	552.6
Construction contract balances	**152.7**	131.1
Deferred consideration on acquisitions	**2.4**	1.8
Other taxation and social security costs	**26.4**	27.1
Other payables	**12.7**	15.6
Accruals and deferred income	**84.2**	83.0
	799.2	811.5
Non-current:		
Trade payables	**7.1**	7.8
Deferred considerations on acquisitions	**57.8**	6.3
Accruals and deferred income	**3.4**	5.5
	68.3	19.6

As a result of the acquisition of Kier Developments Limited the amount due by the Group for deferred consideration on acquisitions at 30 June 2011 is material. Consequently the deferred consideration has now been separately disclosed in the above note and the position at 30 June 2010 has been restated accordingly. The impact of this restatement was to separately disclose £1.8m of current deferred consideration and £6.3m of non-current deferred consideration and reduce trade payables by the same amounts.

21 Provisions

	Captive insurance company £m	Restoration of mining sites £m	Other provisions £m	Total £m
At 1 July 2010	17.3	6.6	37.1	61.0
Reversed	–	–	(16.4)	(16.4)
Utilised	(5.3)	(0.2)	(11.9)	(17.4)
Unwinding of discount	–	0.7	–	0.7
Additions	6.1	0.2	17.0	23.3
At 30 June 2011	**18.1**	**7.3**	**25.8**	**51.2**

Due to the nature of the liabilities in the Group's captive insurance company, the timing of any potential future outflows in respect of these liabilities is uncertain.

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

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

	2011 £m	2010 £m
Due within one year	**10.0**	5.5
Due after one year	**41.2**	55.5
	51.2	61.0

22 Share capital and reserves

Share capital
The share capital of the Company comprises:

	2011		2010	
	Number	£m	Number	£m
Issued and fully paid shares of 1p each	**38,160,025**	**0.4**	37,477,386	0.4

During the year 682,639 ordinary shares were issued at a total premium of £8,067,000, of which 661,054 were issued as a scrip dividend alternative at a premium of £7,903,000 and 21,585 were issued under the Sharesave Scheme at a premium of £164,000.

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

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

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

23 Share-based payments

Options and awards over the Company's ordinary shares at 30 June 2011 were as follows:

	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	LTIP 2009 award	LTIP 2010 award	LTIP 2011 award	Total
Date of grant	1 May 2008	17 April 2009	30 April 2010	28 April 2011	17 November 2008	13 October 2009	15 November 2010	
Awards outstanding at 30 June 2011								
– directors	–	3,660	–	784	149,608	92,885	119,908	**366,845**
– employees	83,794	989,834	248,050	272,884	277,199	185,829	493,450	**2,551,040**
	83,794	993,494	248,050	273,668	426,807	278,714	613,358	**2,917,885**

Sharesave Scheme
Options were granted on 28 April 2011 at an exercise price of 1,150p. These are exercisable at the holders' discretion from 1 July 2014 until 1 January 2015.

23 Share-based payments continued

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

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

	2011		2010	
	Number of shares	£m	Number of shares	£m
At 1 July	**522,664**	**9.2**	525,837	9.3
Acquired during the year	**–**	**–**	848	–
Issued in satisfaction of awards	**–**	**–**	(4,021)	(0.1)
At 30 June	**522,664**	**9.2**	522,664	9.2

The market value of these shares at 30 June 2011 was £7.1m. The dividends on these shares have been waived.

A description of these schemes and the terms and conditions of each scheme are included in the directors' remuneration report on pages 53 and 54.

Value of share schemes
The fair value per option granted has been calculated using the following assumptions. These calculations are based on the Black-Scholes model for all options apart from the TSR element of the LTIP which is based on a stochastic model.

	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	LTIP 2009 award	LTIP 2010 award	LTIP 2011 award (EPS element)	LTIP 2011 award (TSR element)
Date of grant	1 May 2008	17 April 2009	30 April 2010	28 April 2011	17 November 2008	13 October 2009	15 November 2010	15 November 2010
Share price at grant	1,166.0p	907.0p	1,140.0p	1,330p	780.0p	1,055.0p	1,271p	1,271p
Exercise price	1,400.0p	750.0p	1,025.0p	1,150p	nil	nil	nil	nil
Option life	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Expected volatility	34.7%	42.1%	42.4%	38.5%	N/A	N/A	N/A	41.3%
Dividend yield	5.0%	6.1%	4.9%	4.5%	7.1%	5.1%	4.6%	4.6%
Risk-free interest rate	4.4%	2.2%	1.7%	1.6%	N/A	N/A	N/A	1.2%
Value per option	173.0p	237.0p	291.0p	325.0p	627.0p	928.0p	1,108.5p	684.1p

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

The fair value of the TSR element incorporates an assessment of the number of shares that will be awarded, as the performance conditions are market conditions under IFRS 2 'Share-based payments'.

The performance conditions of the EPS element are non-market conditions under IFRS 2. The fair value therefore does not include an assessment of the number of shares that will be awarded. Instead the amount charged for this element is based on the fair value factored by a 'true-up' for the number of awards that are expected to vest.

The expected volatility is based on historical volatility over the last three years. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

23 Share-based payments continued

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

	2011 £m	2010 £m
Equity-settled	**2.7**	1.4
Cash-settled including employer's national insurance	**0.4**	0.1
Total charge recognised as employee costs	**3.1**	1.5

Included in the other payables is an amount of £0.6m (2010: £0.2m) relating to provisions for employer's national insurance and cash-settled share-based payments.

A reconciliation of option movements is shown below:

	2011		2010	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at 1 July	**2,351,826**	**529.0p**	2,236,491	563.3p
Forfeited	**(329,306)**	**342.5p**	(504,118)	607.4p
Exercised	**(21,585)**	**762.1p**	(8,455)	393.3p
Granted	**916,950**	**345.2p**	627,908	468.0p
Outstanding at 30 June	**2,917,885**	**490.6p**	2,351,826	529.0p
Exercisable at 30 June	**–**	**–**	–	–

The options outstanding at 30 June 2011 have a weighted average contractual life of 1.7 years (2010: 2.2 years).

24 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.

25 Financial instruments

Capital risk management
The Group and Company manage their capital to ensure their ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group and Company comprises: equity attributable to equity holders of Kier Group plc, consisting of issued share capital; reserves and retained earnings as disclosed in the consolidated statement of changes in equity; and cash, cash equivalents and borrowings as disclosed in note 19.

The Group and Company maintain or adjust their capital structure through the payment of dividends to shareholders, issue of new shares and issuing or repaying borrowings. The Group's policy is to carry no significant debt, other than the non-recourse debt of joint ventures engaged in commercial property and PFI projects.

The Group's overall capital risk management strategy remains unchanged from 2010.

25 Financial instruments continued

Financial risk management

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

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

Credit risk

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

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

Short-term bank deposits and hedging transactions are executed only with highly credit-rated authorised counterparties based on ratings issued by the major ratings agencies. Counterparty exposure positions are monitored regularly so that credit exposures to any one counterparty are within predetermined limits. At the balance sheet date there were no significant concentrations of credit risk.

Trade and other receivables included in the balance sheet are stated net of a bad debt provision which has been estimated by management following a review of individual receivable accounts. There is no Group-wide rate of provision, and provision made for debts that are overdue is based on prior default experience and known factors at the balance sheet date. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable.

An analysis of the provision held against trade receivables is set out below.

	2011 £m	2010 £m
Provision as at 1 July	**7.4**	3.6
Increase in provision during the year	**0.2**	4.2
Provision utilised during the year	**(0.1)**	–
Provision released during the year	**(2.1)**	(0.4)
Provision as at 30 June	**5.4**	7.4

There are £50.7m (2010: £53.8m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £35.6m (2010: £40.2m) had been received by the end of August 2011. There are no indications as at 30 June 2011 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 2011 that were overdue for payment was 22% (2010: 21%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Construction	43 days (2010: 50 days)
Services	25 days (2010: 29 days).

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

25 Financial instruments continued

Market risk

Interest rate risk

The Group has hedged part of its exposure to interest rate movements through a private placement of £30.3m of loan notes for ten years from February 2003, which bear interest on a fixed rate basis at 6.4% p.a. The Group has bank deposits which are subject to floating rates of interest linked to the UK base rate. The Group has borrowing facilities to finance short-term working capital requirements. Such borrowings are subject to floating rates of interest linked to LIBOR.

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

Foreign currency risk

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

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

Liquidity risk

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

Derivative financial instruments

At 30 June 2011	Current assets £m
Fuel price forward contracts	**0.2**

Fuel price forward contracts have been accounted for as derivatives held at fair value through the income statement. The fair value of these contracts have been determined based on a level 2 valuation method, using valuation techniques that include inputs that are based on observable market data.

In addition to the above, a number of the Group's PFI joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. Interest-bearing debts and associated interest rate derivatives within these joint ventures have a typical term of between 25 and 30 years and are without recourse to the Group. At 30 June 2011 the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £145.1m. The Group's share of the total net fair value liability of these interest rate derivatives at 30 June 2011, based on quoted prices in active markets, amounted to £10.3m which, together with the related deferred tax asset of £2.7m, have met the criteria for hedge accounting and as a result have been recognised directly in equity.

Financial assets – analysis by currency and maturity dates

At 30 June 2011 the Group had cash, and short-term deposits denominated in the following currencies:

	2011 £m	2010 £m
Currency:		
Sterling	**171.7**	200.1
US dollar	**1.3**	0.6
Euro	**1.1**	1.2
Hong Kong dollar	**14.6**	–
UAE dirhams	**5.9**	–
Other	**0.5**	3.6
Total	**195.1**	205.5

25 Financial instruments continued

Financial liabilities – analysis of maturity dates

At 30 June 2011 the Group had the following financial liabilities together with the maturity profile of their contractual cash flows:

	Trade payables £m	Deferred consideration on acquisitions £m	Long-term borrowings £m	Derivative financial instruments £m	Total £m
30 June 2011					
Carrying value	**525.9**	**60.2**	**30.3**	**–**	**616.4**
Contractual cash flows					
Less than one year	**518.8**	**2.4**	**–**	**–**	**521.2**
One to two years	**7.1**	**32.6**	**30.3**	**–**	**70.0**
Two to three years	**–**	**27.8**	**–**	**–**	**27.8**
Three to four years	**–**	**0.8**	**–**	**–**	**0.8**
Four to five years	**–**	**0.6**	**–**	**–**	**0.6**
	525.9	**64.2**	**30.3**	**–**	**620.4**
30 June 2010					
Carrying value	560.4	8.1	30.3	0.3	599.1
Contractual cash flows					
Less than one year	552.6	1.8	–	0.2	554.6
One to two years	7.9	2.0	–	0.1	10.0
Two to three years	–	1.9	30.3	–	32.2
Three to four years	–	1.8	–	–	1.8
Four to five years	–	0.8	–	–	0.8
More than five years	–	0.6	–	–	0.6
	560.5	8.9	30.3	0.3	600.0

There is no material difference between the carrying value and fair value of the Group's financial liabilities. The carrying value is calculated by discounting expected future cash flows.

The long-term borrowings represent a £17.0m UK sterling loan and a £13.4m US dollar loan, net of £0.1m of capitalised finance costs, from the private placement of loan notes made in February 2003. The loans are repayable in one payment in February 2013. The UK sterling loan is at a fixed interest rate of 6.4% for the term of the loan. The Group has entered into interest payment and repayment swaps for the US dollar loan, which give an effective 6.4% fixed interest rate for the term of the loan.

25 Financial instruments continued

Borrowing facilities
The Group has £90.0m (2010: £67.5m) of unsecured committed borrowing facilities due for renewal in February 2014.

These facilities are subject to certain covenants linked to the Group's financing structure, specifically regarding the ratios of debt to interest and profit, and consolidated tangible net worth. The Group has complied with these covenants throughout the period.

In addition the Group has £10.0m (2010: £10.0m) of unsecured overdraft facilities repayable on demand.

26 Financial and capital commitments

	2011 £m	2010 £m
Commitments for capital expenditure in subsidiaries	**7.1**	6.9
Commitments for equity and subordinate debt in PFI joint ventures	**5.0**	11.9
	12.1	18.8

Non-cancellable operating lease rentals are payable as follows:

	2011		2010	
	Property £m	**Plant and machinery £m**	Property £m	Plant and machinery £m
Within one year	**3.9**	**10.0**	3.0	10.8
Between one and five years	**10.9**	**12.2**	8.0	16.8
Over five years	**5.7**	**–**	7.4	–
	20.5	**22.2**	18.4	27.6

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.

27 Related parties

Identity of related parties
The Group has a related party relationship with its joint arrangements, joint ventures, key management personnel and pension schemes in which its employees participate.

Transactions with key management personnel
The Group's key management personnel are the executive and non-executive directors as identified in the directors' remuneration report on pages 51 to 59.

In addition to their salaries, the Group also provides non-cash benefits to directors and contributes to a post-employment defined benefit plan on their behalf.

Key management personnel also participate in the Group's share option programme (see note 23).

Key management personnel compensation comprised:

	2011 £m	2010 £m
Total emoluments as analysed in the directors' remuneration report	**3.8**	3.3
Employers' national insurance contributions	**0.6**	0.4
Total short-term employment benefits	**4.4**	3.7
Share-based payment charge	**–**	0.3
	4.4	4.0

27 Related parties continued

Transactions with pension schemes

In June 2011 the Group transferred its 50% interest in Sheffield Schools PFI Project (Academy Services (Sheffield) Holdings Limited) to the Kier Group Pension Scheme. Further details of this transaction and all other transactions between the Group and pension schemes in which its employees participate are detailed in note 8.

Transactions with joint arrangements and joint ventures

	2011 £m	2010 £m
Construction services and materials	**75.9**	91.5
Staff and associated costs	**0.6**	0.3
Management services	**2.2**	1.7
Interest on loans to joint ventures	**2.4**	1.9
	81.1	95.4

Amounts due from joint ventures are analysed below:

	2011 £m	2010 £m
Academy Services (Norwich) Limited	**–**	1.7
Academy Services (Oldham) Limited	**–**	2.5
Academy Services (Sheffield) Limited	**–**	2.7
ASK (Greenwich) Limited	**0.8**	0.8
Information Resources (Bournemouth) Limited	**0.7**	0.7
Information Resources (Oldham) Limited	**0.9**	0.9
Justice Support Services (North Kent) Limited	**1.7**	1.7
Kent PFI Company 1 Limited	**7.8**	–
Prospect Healthcare (Hinchingbrooke) Limited	**1.2**	1.2
Prospect Healthcare (Ipswich) Limited	**1.4**	1.4
Prospect Healthcare (Reading) Limited	**1.7**	1.7
Kier Developments Limited	**–**	20.3
Saudi Comedat Co.	**–**	0.2
Solum Regeneration LP	**0.4**	–
	16.6	35.8

28 Acquisitions and disposals

a) Summary of consideration paid for acquisitions during the year net of bank balances, overdrafts and loans acquired

	2011 £m	2010 £m
Beco Limited	**1.8**	–
Kier Developments Limited	**33.9**	–
Construction and building services operations of North Tyneside Council	**1.0**	3.4
Kent LEP	**–**	2.2
Pure Recycling	**1.0**	2.0
Hugh Bourn Developments (Wragby) Limited	**–**	0.5
Total	**37.7**	8.1

External costs of £0.8m have been incurred and expensed during the year to 30 June 2011 on the acquisition of Beco Limited (£0.2m) and Kier Developments Limited (£0.6m).

Acquisition of investment in Beco Limited

On 22 November 2010 the Group, through its subsidiary Kier Limited, purchased the entire issued share capital of Beco Limited (Beco). The consideration representing the fair value of the net assets acquired is payable wholly in cash.

The total of the consideration for the purchase was £2.4m, of which £1.3m was paid in cash in November 2010. The balance of £1.1m is due in instalments by November 2013. £0.7m of this balance is contingent on the results of the business acquired. It has been discounted to its present value of £1.0m.

The fair values of the identifiable net assets acquired and the goodwill arising from the transaction are as follows:

	Fair value £m
Property, plant and equipment	0.1
Inventories	0.4
Receivables	0.8
Payables	(1.1)
Bank overdraft and loans	(0.5)
Identifiable net assets	(0.3)
Goodwill	2.6
Total consideration	2.3

The acquisition of Beco resulted in £2.6m of goodwill. This goodwill was paid as the acquisition gave the Group immediate access to the solar photovoltaic market through Beco’s industry accreditation and the knowledge and experience of its staff.

The cash outflow in respect of this acquisition during the year ended 30 June 2011 was £1.8m, being £1.3m of consideration and £0.5m for the repayment of bank overdrafts and loans acquired.

28 Acquisitions and disposals continued

Acquisition of investment in Kier Developments Limited
On 14 April 2011 the Group, through its subsidiary Kier Property Limited, acquired from Lloyds Banking Group its 50% interest in the jointly owned Kier Developments Limited incorporating a portfolio of real estate assets.

As a result of the transaction, Kier Property Limited now owns the entire issued share capital of Kier Developments Limited.

The total amount payable to Lloyds Banking Group for the purchase was £91.0m, of which £35.0m was paid in cash in April 2011. The balance of £56.0m is due in two instalments of £30.0m in October 2012 and £26.0m in October 2013. It has been discounted to its present value of £52.1m.

This transaction has been accounted for as a step acquisition under IFRS 3 ‘Business combinations’.

The carrying value of the Group’s existing 50% interest in Kier Developments Limited on 14 April 2011 was £18.3m, comprising a shareholder loan of £20.3m net of £2.0m for the Group’s share of the retained losses of Kier Developments Limited at the date of acquisition.

The directors determined that the fair value of the pre-existing interest in the joint venture was the same as its carrying value of £18.3m, and therefore no gain or loss has been recognised within the income statement to reflect the deemed disposal of the interest in the joint venture. The total consideration due to the Lloyds Banking Group for the remaining 50% interest is £91.0m. The level of consideration in comparison to the fair value for the previous 50% interest reflects the debt-free state in which the entity is being bought as existing bank debt and shareholder loans are being capitalised into equity as part of the transaction.

The fair value of the existing 50% interest has been calculated on a value in use basis, incorporating knowledge of the current development sites and access to clients and employees of the business.

The fair values of the identifiable net assets of the whole of Kier Developments Limited and the goodwill arising from the transaction are as follows:

	Fair value £m
Property, plant and equipment	9.0
Deferred tax asset	22.2
Inventories	76.2
Receivables	5.7
Bank balances	1.1
Payables	(8.9)
Identifiable net assets	105.3
Goodwill	0.1
Total fair value	105.4

The gross contractual amount of receivables was £13.8m. The fair value of these receivables was £5.7m as it is estimated that £8.1m will not be received.

The total fair value of the whole of Kier Developments Limited, on increasing the Group’s ownership from 50% to 100%, is made up as follows:

	£m
Payable to Lloyds Banking Group for their existing 50% equity interest and outstanding bank loans:	
Cash paid in April 2011	35.0
Deferred consideration of £56.0m discounted to present value	52.1
	87.1
Fair value of the previous 50% interest in Kier Developments Limited	18.3
Total fair value	105.4

The cash outflow in respect of this acquisition during the year ended 30 June 2011 was £33.9m, being £35.0m paid to Lloyds Banking Group net of £1.1m of bank balances acquired.

28 Acquisitions and disposals continued

In the period from 14 April 2011 Kier Developments Limited contributed revenue of £15.1m and profit before tax of £4.2m.

If the acquisition had occurred on 1 July 2010, the directors have estimated that consolidated revenue would have been £59.4m, and consolidated profit before tax for the year would have been £4.1m. In determining these amounts, it has been assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on 1 July 2010.

Acquisition of the business and assets of the construction and building services operation of North Tyneside Council
On 6 September 2009 the Group, through its subsidiary Kier North Tyneside Limited, acquired the business and assets of the building services operation of North Tyneside Council. The consideration, payable wholly in cash, was £6.9m, representing the value of the net assets acquired.

The consideration is payable as follows:

	£m
Total consideration payable	6.9
Paid at 30 June 2010	(3.4)
Paid during the year to 30 June 2011	(1.0)
Unwinding of discount	0.2
Deferred at 30 June 2011	2.7

The deferred consideration is a fixed payment due in instalments by March 2014. It has been discounted to its present value.

Acquisition of investment in Pure Recycling
On 14 May 2010 the Group, through its subsidiary Kier Services Limited, purchased the entire issued share capital of Pure Recycling Warwick Limited and Pure Buildings Limited. The consideration, payable wholly in cash, was £6.4m, representing the fair value of the net assets acquired.

The consideration is payable as follows:

	£m
Total consideration payable	6.4
Paid at 30 June 2010	(2.0)
Paid during the year to 30 June 2011	(1.0)
Unwinding of discount	0.4
Deferred at 30 June 2011	3.8

The deferred consideration is contingent on the completion of certain events and on the results of the business acquired and is due in instalments by October 2016. It has been discounted to its present value.

b) Disposal of investments in joint ventures
During the year the Group, through its subsidiary Kier Project Investment Limited, sold its investments in three PFI projects, for combined consideration of £13.7m (Sheffield Schools £4.5m, Oldham Schools £5.4m and Norwich Schools £3.8m).

Oldham Schools and Norwich Schools were sold externally and the cash consideration was received in full. Sheffield Schools was transferred to the Kier Group Pension Scheme. Further details of this transfer are provided in note 8.

During the prior year the Group, through its subsidiary Kier Project Investment Limited, sold its investment in two PFI projects, Waltham Forest Schools and Tendring Schools, for a combined cash consideration of £7.3m, received in full in December 2009.

The disposal proceeds can be reconciled to the profits on disposal as follows:

	2011 £m	2010 £m
Sales proceeds	**13.7**	7.3
Book value of net assets and loans of joint ventures	**(7.3)**	(2.9)
Sale costs and loan interest receivable included in sales proceeds	**(0.5)**	(0.2)
Profit on disposal	**5.9**	4.2

Company balance sheet

At 30 June 2011 (registered company number 2708030)

	Notes	**2011 £m**	2010 £m
Fixed assets			
Investment in subsidiary undertakings	5	**90.3**	105.3
Current assets			
Debtors	6	**6.2**	4.6
Cash at bank and in hand		**196.5**	187.8
		202.7	192.4
Current liabilities			
Creditors – amounts falling due within one year	7	**(173.5)**	(206.6)
Net current liabilities		**29.2**	(14.2)
Total assets less current liabilities		**119.5**	91.1
Creditors – amounts falling due after more than one year	7	**(30.3)**	(30.3)
Net assets		**89.2**	60.8
Capital and reserves			
Share capital	8	**0.4**	0.4
Share premium	9	**46.9**	38.8
Merger relief reserve	9	**1.2**	1.2
Capital redemption reserve	9	**2.7**	2.7
Sharescheme reserve	9	**(5.1)**	(8.5)
Profit and loss account	9	**43.1**	26.2
Shareholders' funds	10	**89.2**	60.8

The financial statements were approved by the Board of directors on 14 September 2011 and were signed on its behalf by:

M P Sheffield
H J Mursell
Directors

Notes to the Company financial statements

1 Accounting policies

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

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

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

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

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

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

Share-based payments
The Company issues equity-settled share-based payments under the Sharesave and LTIP schemes. The fair value of these schemes at the date of grant is expressed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. Share-based payments are charged wholly to the ultimate parent company, which makes internal recharges to subsidiaries for these services as appropriate.

Financial instruments
The Company's principal financial assets and liabilities are cash at bank and borrowings. Cash at bank is carried in the balance sheet at nominal value. Borrowings are recognised initially at fair value and subsequently at amortised cost.

The consolidated financial statements include disclosures in note 25 under IFRS 7 which comply with FRS 29 'Financial Instruments and Disclosures'. Consequently, the Company has taken advantage of certain exemptions in FRS 29 from the requirement to present separate financial instrument disclosures for the Company.

2 Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year.

The auditors' remuneration for audit services to the Company was £4,337 (2010: £4,265). 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 51 to 59. 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 2010 and 30 June 2011	**105.3**
Provision for diminution in value	
At 1 July 2010	–
Movement during the year	**(15.0)**
At 30 June 2011	**(15.0)**
Net book value at	
30 June 2011	**90.3**
30 June 2010	105.3

6 Debtors

	2011 £m	2010 £m
Amounts falling due within one year:		
Other debtors	**5.6**	4.0
Corporation tax	**0.6**	0.6
	6.2	4.6

7 Creditors

	2011 £m	2010 £m
Amounts falling due within one year:		
Bank overdrafts and loans	**149.0**	181.7
Amounts due to subsidiary undertakings	**19.0**	20.2
Other creditors	**5.5**	4.7
	173.5	206.6
Amounts falling due after one year:		
Long-term borrowings	**30.3**	30.3

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	Sharescheme reserve £m	Profit & loss £m
At 30 June 2009	36.1	1.2	2.7	(10.0)	18.6
Issue of shares	2.7	–	–	–	–
Decrease in investment in own shares	–	–	–	0.1	–
Movement in provision for share-based payments	–	–	–	1.4	–
Profit for the year	–	–	–	–	28.0
Dividends paid	–	–	–	–	(20.4)
At 30 June 2010	38.8	1.2	2.7	(8.5)	26.2
Issue of shares	8.1	–	–	–	–
Movement in provision for share-based payments	–	–	–	2.7	–
Transfer of provision for share-based payments on expired schemes	–	–	–	0.7	(0.7)
Profit for the year	–	–	–	–	39.7
Dividends paid	–	–	–	–	(22.1)
At 30 June 2011	**46.9**	**1.2**	**2.7**	**(5.1)**	**43.1**

The balance on the sharescheme reserve comprises the investment in own shares of £9.2m (2010: £9.2m), and a credit balance on the sharescheme reserve of £2.9m (2010: reserve of £0.7m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment schemes are included in note 23 of the consolidated financial statements.

10 Reconciliation of movement in shareholders' funds

	2011 £m	2010 £m
Opening shareholders' funds	**60.8**	49.0
Profit for the year	**39.7**	28.0
Dividends paid	**(22.1)**	(20.4)
Issue of shares	**8.1**	2.7
Increase in investment in own shares	**–**	0.1
Movement in provision for share-based payments	**2.7**	1.4
Closing shareholders' funds	**89.2**	60.8

Principal operating subsidiaries and business units

Construction

Kier Regional Limited
Kier Build
Kier Eastern
Kier London
Kier Marriott
Kier Moss
Kier Northern
Kier Scotland/Kier North East
Kier Southern
Kier Western

Kier Construction Limited

Kier Technical Services

Services

Kier Services Limited
Maintenance
- Kier Harlow Limited
- Kier Islington Limited
- Kier North Tyneside Limited
- Kier Sheffield LLP
- Kier Stoke Limited

Facilities Management
- Kier Facilities Services Limited

Environmental
- Pure Buildings Limited
- Pure Recycling Warwick Limited

Asset Management
- Kier Asset Partnership Services Limited

Energy Solutions
- Beco Limited

Insurance Management
- Kier Insurance Management Services Limited

Plant and Fleet Management
- Kier Plant Limited

Property

Kier Property Limited
Kier Developments Limited
Kier Ventures Limited

Kier Project Investment Limited

Homes

Kier Homes Limited
Kier Partnership Homes Limited

Group Services

Kier Limited

Notes:

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

ii) The Group has entered into partnership agreements with Harlow Council, North Tyneside Council, Sheffield City Council and Stoke-on-Trent City Council whereby the respective councils have a participating ownership interest and receive a minority share of the profits of Kier Harlow Limited, Kier North Tyneside Limited, Kier Sheffield LLP and Kier Stoke Limited.

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

iv) A full list of all the subsidiaries of Kier Group plc is available from the registered office of the Company.

Principal joint arrangements and joint ventures

Joint arrangements

Construction

The following joint arrangements, in which the Group participation is between 30% and 50%, operate in the United Kingdom:

KMI Plus	a joint arrangement between Kier Construction, J Murphy & Sons Limited, Interserve Project Services Limited and Mouchel Limited
KMI	a joint arrangement between Kier Construction, J Murphy & Sons Limited and Interserve Project Services Limited
Crossrail Contracts 300/410	a joint arrangement between Kier Construction, BAM Nuttall Limited and Ferrovial Agroman (UK) Limited

The following joint arrangements, in which the Group participation is between 30% and 50%, operate overseas in the territory indicated:

Hong Kong

MTRC Contract 824	a joint arrangement between Kier Construction, Kaden Construction Limited and Obras Subterráneas S.A.
MTRC Contract 901	a joint arrangement between Kier Construction, Laing O'Rourke Hong Kong Limited and Kaden Construction Limited

Joint ventures

	Interest held
Construction	
Incorporated and operating in the Kingdom of Saudi Arabia:	
Saudi Comedat Co.	25%
Long-term concession holding under the Private Finance Initiative	
ASK (Holdings) Limited	50%
Blue 3 (Gloucester Fire) (Holdings) Limited	70%
Information Resources (Holdings) Limited	50%
Information Resources (Oldham) Holdings Limited	50%
Justice Support Services (North Kent) Holdings Limited	42.5%
Justice Support Services (Norfolk and Suffolk) Holdings Limited	42.5%
Kent LEP1 Limited	64%
Kent PFI Holdings Company 1 Limited	71.8%
Prospect Healthcare (Hinchingbrooke) Holdings Limited	50%
Prospect Healthcare (Ipswich) Holdings Limited	50%
Prospect Healthcare (Reading) Holdings Limited	50%
Commercial property development	
Solum Regeneration LP	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.

iii) Interests in the above joint ventures are held by subsidiary undertakings.

iv) The joint ventures where the Group has an interest in excess of 50% are still considered joint ventures as the Group still has joint control.

Financial record

Year ended 30 June	**2011 £m**	2010 £m	2009 £m	2008 £m	2007 £m
Revenue: Group and share of joint ventures	**2,178.8**	2,098.7	2,145.6	2,374.2	2,127.9
Group operating profit	**59.7**	57.8	50.1	82.9	74.9
Joint ventures – share of operating profit	**2.1**	(0.1)	1.0	4.4	7.3
Profit on disposal of joint ventures	**5.9**	4.2	-	16.2	-
Total finance cost net	**(1.9)**	(2.3)	(0.2)	0.9	(3.2)
Joint venture tax	**(0.3)**	0.1	(0.3)	(1.1)	(1.4)
Profit before tax before exceptional items	**65.5**	59.7	50.6	103.3	77.6
Exceptional items	**7.0**	(2.0)	(25.8)	(39.9)	–
Profit before tax	**72.5**	57.7	24.8	63.4	77.6
Income tax	**(10.2)**	(17.2)	(7.9)	(15.2)	(21.3)
Profit for the year	**62.3**	40.5	16.9	48.2	56.3
Earnings per share					
– undiluted	**166.1p**	108.2p	44.1p	130.7p	155.0p
Dividend per share	**64.0p**	58.0p	55.0p	55.0p	50.0p
At 30 June					
Shareholders’ funds	**£164.2m**	£104.2m	£92.5m	£183.1m	£183.0m
Net assets per share	**430.3p**	278.0p	248.5p	494.6p	500.4p

Corporate information

Directors
P M White CBE FCA Chairman
M P Sheffield BSc CEng FICE Chief Executive
S Bowcott BSc
I M Lawson FCIOB
H J Mursell BA ACA
R W Simkin BSc MRTPI (retired 30 June 2011)
R C Bailey BA ACA
C V Geoghegan BA FRAeS
N P Winser CEng FIET FIGEM
H E E Raven BA Secretary

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Registered Number
England 2708030

Financial calendar

16 November 2011
Annual general meeting

30 November 2011
Payment of final dividend for 2010/11

February 2012
Announcement of half-year results
and interim dividend for 2011/12

May 2012
Payment of interim dividend

September 2012
Announcement of preliminary full-year results
and final dividend for 2011/12

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