KIER

News Release

For release on 18 September 2014 at 0700 hours

Kier Group plc - Preliminary results for the year ended 30 June 2014

Kier Group plc, a leading property, residential, construction and services group, announces its results for the year ended 30 June 2014

	Year ended June 2014	Year ended June 2013*	Change	Like for like increase
Revenue	**£3.0bn**	£2.0bn	**51%**	**+13%**
Underlying operating profit*	**£88.0m**	£55.5m	**59%**	**+3%**
Underlying profit before tax*	**£73.1m**	£47.6m	**54%**	
Underlying earnings per share*	**107.7p**	105.6p	**2%**	
Proposed full-year dividend per share	**72.0p**	68.0p	**6%**	

* Underlying operating profits and margins, pre-tax profits and EPS are stated before exceptional items totalling £42.2m (2013: £17.0m), amortisation of intangible assets relating to contract rights of £10.8m (2013: £3.4m) and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition of £5.3m (2013: £1.3m). Reported operating profit was £35.0m (2013: £35.1m), reported pre-tax profit was £14.8m (2013 £25.9m) and reported EPS was 18.4p (2013: 62.6p). 2013 results have been restated to reflect this presentation (see note 3).

Financial highlights – good set of results in line with expectations

- Group revenue of £3.0bn (2013: £2.0bn) up 51%, including nearly a full year from the May Gurney acquisition;
- Underlying profit before tax[1] up 54% to £73.1m (2013: £47.6m);
- Solid Construction division margin of 2.1% (2013: 2.3%) on increased revenue;
- Improved Services division margin of 4.8% (2013: 4.4%), reflecting £5m cost saving and winning larger value contracts following the May Gurney acquisition;
- 15% return on capital achieved on property development activities;
- Underlying earnings per share up 2% to 107.7p (2013: 105.6p); having adjusted for the issue of shares for the acquisition of May Gurney;
- Net debt position of £123m (2013: net cash £60m), reflecting continued investment to drive further growth and following the acquisition of May Gurney; and
- Proposed full year dividend increased by 6% to 72.0p (2013: 68.0p), reflecting the Group's progressive dividend policy and the Board's confidence in the future of the Group.

Operational highlights – demonstrating the strength of Kier's operations

- Integration of May Gurney substantially complete and on track to achieve ROCE of 15%pa;
- More than £1bn of new Services work and almost £2bn of new Construction work won;
- Construction and Services order books of £6.2bn (2013: £4.3bn) represent more than 90% (2013: 88%[1]) secured and probable for 2015;
- Mixed tenure housing and Property development pipeline maintained at a level in excess of £1.5bn;
- Post year end new contracts secured include:
  - Preferred bidder to build new 270,000sqft HQ for Total E&P UK in Aberdeen, with construction commencing in spring 2015;
  - Preferred bidder for a £50m Knight Dragon high-rise residential block on the Greenwich Peninsula, London;

[1] Including May Gurney

continued ……

- A place on all six lots of the Education Funding Agency (EFA) regional framework for school building and upgrades, estimated to be worth up to £5bn over four years;
- £105m joint venture contract award for a prestigious hotel and spa in Abu Dhabi;
- £87m joint venture contract to build a new data centre in Abu Dhabi for a leading UAE bank;
- Five-year £25m pa Canal & River Trust National Engineering & Construction Contract (NECC) for England and Wales;
- Five-year £20m pa contract with Bristol Water for network maintenance services, bringing awards under AMP6 bidding cycle to £190m pa; and
- Preferred bidder for a two-year £7m pa contract with Severn Trent on the Asset Management Solutions (AMS) framework, with a possible five-year extension.

Commenting on the results, Kier Group plc chief executive, Haydn Mursell said:

"I am pleased to report a good set of results that show significant progress on last year and demonstrate the strength of the operational performance of the business and the benefits of the May Gurney acquisition."

"*Despite inflationary price and labour cost pressures in the market, our margins remained solid, particularly in our Services business. Following the integration of May Gurney, which transformed the scale and diversity of the Group, the breadth of our capabilities has resulted in new as well as larger contract awards. We are now able to help our customers maximise the value of their assets as they invest, build, maintain and renew them. Our capabilities extend from negotiating finance and planning permissions to constructing major buildings and infrastructure, as well as providing facilities management and environmental services. This breadth of capabilities puts us in a good position to pursue future growth."*

"While the economic climate continues to be positive, operating margins are under pressure due to inflationary cost increases in the supply chain. Cash generation will continue to be constrained in the short-term. However, strong risk management and our ability to offer a greater range of service offerings positions us well for the future."

"The continuing improvements in our operating performance and our strong order book mean that we are on course to meet the Board's expectations for the current financial year."

"Since taking up the CEO role on 1 July, we have reviewed and refreshed the Group's strategy, Vision 2020, a strategy for sustainable profitable growth. This strategy will see the Group aim to deliver double-digit compound annual profit growth for the period to 2020 and to be a top three in our chosen markets."

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Other information:

There will be a presentation of the preliminary results to analysts at 9.00am hours on 18 September 2014 at the Andaz hotel, 40 Liverpool Street, London EC2. A recorded video presentation will be available on www.kier.com/investors from 1.30pm on 18 September.

For further information, please contact:

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Chairman's statement

The 2014 financial year was a successful one for the business and, once again, I am pleased to report a good set of results for the Group. We continue to build on the positive performance of recent years and are particularly pleased to see the benefits of the May Gurney acquisition, which transformed the scale and diversity of the Group, being realised.

Group revenue for the year ended 30 June 2014 increased by 51% to £3.0bn (2013: £2.0bn) and underlying operating profit* increased by 59% to £88.0m (2013: £55.5m). On a like-for-like basis, Group revenue was up 13% and underlying operating profit* was up 3%. Overall operating margins* remained robust at 2.1% in the Construction division (2013: 2.3%) and 4.8% in the Services division (2013: 4.4%), in line with expectations. This increase in the Services division margin reflects the broader capability offering available, generating additional or larger scale contracts and the realisation of the synergies arising from the integration of May Gurney. The Property division, including house building activity, delivered another strong operating profit* of £21.0m (2013: £20.5m) on the back of its investment strategy.

As expected, an exceptional charge of £42.2m (2013: £17.0m) was incurred during the period predominantly relating to the acquisition and integration of May Gurney. Average Group month-end net debt was £140m (2013: £4.0m), a good result given the continuing pressure on working capital and the acquisition of May Gurney. The period ended with a net debt balance of £123m (June 2013: net cash £60m), having funded the May Gurney transaction and invested approximately £60m in new development schemes, housing land and affordable housing work. We have been investing heavily for the future. Underlying profit before tax* for the year of £73.1m (2013: £47.6m) and underlying earnings per share* of 107.7p (2013: 105.6p) were both in line with expectations.

To reflect the Group's progressive dividend policy and the Board's continued confidence in the Group, a total dividend for the year of 72.0p, a 6% increase, is proposed. The final dividend of 49.5p will be paid on 28 November 2014 to shareholders on the register at the close of business on 26 September 2014. A scrip dividend alternative will also be available.

The Board

During the year, a number of changes to the Board took place. In February, it was announced that Paul Sheffield would step down as chief executive from the Board with effect from 30 June 2014. Paul joined Kier in 1983 and his contribution over 30 years to the Group was considerable, most recently overseeing the acquisition and integration of May Gurney. The Board thanks Paul for his contribution to Kier and we wish him well for the future. As part of our succession planning, Haydn Mursell, previously the finance director, took up the role of chief executive on 1 July.

Today, I am pleased to announce that Beverley Dew will be joining the Group as finance director. A further announcement will be made in due course to confirm the date on which his appointment will become effective.

In February, Chris Geoghegan retired from the Board. Richard Bailey assumed the role of senior independent non-executive director, in addition to his role as chairman of the Risk Management and Audit Committee. Amanda Mellor became the chair of the Remuneration Committee and I took over as chair of the Nomination Committee.

* Underlying operating profits and margins, pre-tax profits and EPS are stated before exceptional items totalling £42.2m (2013: £17.0m), amortisation of intangible assets relating to contract rights of £10.8m (2013: £3.4m) and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition of £5.3m (2013: £1.3m). Reported operating profit was £35.0m (2013: £35.1m), reported pre-tax profit was £14.8m (2013 £25.9m) and reported EPS was 18.4p (2013: 62.6p). 2013 results have been restated to reflect this presentation (see note 3).

On 1 September, Kirsty Bashforth joined the Board as a non-executive director. With over 20 years' experience with BP plc, Kirsty brings a broad range of skills and experience, particularly in organisational effectiveness and business improvement. I would like to welcome Kirsty to the Board.

Outlook

These results demonstrate the continued strength of the Group. The business offers a broad set of capabilities which, when combined with a strong regional presence, provides a resilient operating platform. Accordingly, our UK divisions are increasingly providing a more integrated offering to customers. The portfolio of Group businesses is also a natural hedge against the cyclical nature of the markets in which we operate, with our Property and Residential businesses at the front, while Construction and Services come into their own at the back of the cycle.

Phil White, Chairman

Chief executive's review

A strategy for sustainable profitable growth – Vision 2020

The Group's performance in the year remained strong, providing a positive momentum for the outlook for 2015 and over the medium term. With a broader capability, a strong regional presence in the markets in which we operate and a record of success, Kier has proved its resilience. With improving markets, the Group is well placed for growth despite the challenging economic environment.

Following my appointment, we have reviewed and refreshed the Group's strategic direction. Our vision is to be a customer-focused Group that **invests in, builds, maintains and renews** the places where we live, work and play. Our strength lies in our ability to deliver a more **integrated offering** to our customers. The May Gurney acquisition significantly strengthened the breadth of the Group's capabilities.

Vision 2020, our strategy for sustainable profitable growth, aims to leverage our integrated offering to deliver double-digit compound annual growth in operating profit through to 2020.

To achieve Vision 2020, we have identified six imperatives:

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

In summary, the key drivers of Vision 2020 will be ***top quartile performance,*** accelerated by ***revenue growth through sector leadership*** in our key markets and efficiency and risk management to improve profitability. This growth will be supported by building a strong foundation to create value across our business, by prioritising safety and sustainability, by creating a high quality customer experience and ensuring we attract, develop and retain high-performing teams.

Our clients can gain access to our services through any of our divisions. We offer a range of property and infrastructure services; these range from negotiating finance and planning permissions, through to constructing major buildings and infrastructure, to facilities management and environmental services. This year, the Property division created £350m of development stock from which £250m of Construction division revenue has been and will be generated. In addition, cash generated in the Construction and Services divisions is invested in the Property division, in which higher returns are available. This business model provides complementary benefits for both Kier and its customers.

There is potential to extend our existing capabilities into adjacent market sectors or to develop new capabilities in existing markets. Our integrated offering enables the Group to seek and develop broader and deeper relationships with our clients and to manage effectively the cost and risk of their real estate assets over the whole of the lifecycle. We have already seen clients including Northampton County Council, North Tyneside Council and Surrey County Council, seeking to work with us on their future asset requirements. Further continued focus on leveraging our integrated services will support our ambition to be ***a top three in our chosen markets.***

Vision 2020 priorities for each of our four divisions are:

- Property – to extend our existing offering into new markets such as care homes and student accommodation, using the free cash flow that is generated from the Construction and Services divisions. The approach of the Property division continues to be predominantly non speculative in seeking opportunities for the doubling of its current capital limit to £200m. This will enable us to target larger opportunities and benefit from greater scale to increase returns from today's 15% to nearer 20%;
- Residential – from 1 July 2014, the three existing areas of Kier's house building activities – house building on our own land bank, mixed-tenure housing and contracted residential projects were brought together into a new division, Residential, to be branded Kier Living. This approach enables the Group to scale up its house building activities whilst redeploying our land bank capital into mixed-tenure and social housing, which is less capital-intensive and presents much more manageable risks than those presented by speculative house building. It is anticipated that our current 1,500 annual new builds will increase to c4,000 units over the next five years;
- Construction – our focus is to increase penetration in regional building markets and gain entry into new building markets such as defence, high-rise and aviation. We also anticipate growth in our infrastructure business, particularly upon the European review of the nuclear sector which concludes shortly and is likely to result in investment in nuclear power generation, as well as other forms of power generation. With cross-party political support for investment in infrastructure, this sector has significant growth potential, not just in power but in transport, water and waste. Our international operations are in territories where significant new opportunities exist and we believe a fourth complementary territory will further strengthen our geographic footprint; and
- Services – we aim to expand into new and adjacent services markets, increasing our involvement with the private sector and central Government. With our integrated offering, we can provide our property and construction skills to regulated and public sector customers, enabling them to look at strategic asset management options. The breadth of our services offering enables us to penetrate further into existing sectors where we already operate and approach new clients with integrated solutions. Growth will be both organic and, where necessary, supplemented by acquisitions to achieve top three positions in our chosen markets.

Our ability to operate and win contracts relies on our ability to operate safely. We are committed to a zero accident/incident rate. I am pleased to report that this year, we have improved our safety track record with legacy May Gurney operations reducing their incident rate by 43%, with Kier operations improving by 26%. In aggregate, our Group accident incidence rate of 344 is well ahead of the HSE benchmark.

Operational Review
Property / Residential

The division provides property development, PFI and structured project finance and builds private and affordable homes. From 1 July Kier's house building activities were brought into one division, Kier Residential, branded Kier Living which includes specialist contracting, affordable mixed tenure housing partnerships and private house building, enabling the Group to scale up its house building activities.

	Year ended June 2014	**Year ended June 2013**	***Change***
Revenue			
Developments	**£86m**	£94m	***-8%***
Structured finance and PFI	**£16m**	£4m	***+275%***
Homes	**£182m**	£140m	***+30%***
Total	**£284m**	£238m	***+19%***
Operating profit[1]			
Developments	**£11.2m**	£9.4m	***+19%***
Structured finance and PFI	**£4.8m**	£6.8m	***-29%***
Homes	**£5.0m**	£4.3m	***+16%***
Total	**£21.0m**	£20.5m	***+2%***
Average capital*	**June 2014**	**June 2013**	
Developments	**£(70)m**	£(58)m	
Structured finance and PFI	**£9m**	£1m	
Homes	**£(233)m**	£(247)m	

**Equates to average net debt*

Revenue was £284m (2013: £238m) generating an operating profit[1] of £21.0m (2013: £20.5m). This impressive result was achieved by the development business on the basis of average capital investment of £70m. Opportunities in retail, commercial, industrial and mixed-use schemes generated a return on capital of 15%. A profit of £6m was generated from the disposal of two of our PFI investments and the activities of our private and affordable housing businesses.

Property development

The development business concentrates predominantly on non speculative opportunities where elements of the schemes are forward sold or pre-let, thereby reducing the associated risk and demands on the Group's capital and cash.

In January, Costco exercised its pre-emption right and forward funded their £41m membership warehouse at our site at Western International Market, Hayes. Kier Construction was appointed as contractor and the building achieved practical completion at the end of June. At Bracknell a 39,000sqft light industrial scheme was forward funded, 83% pre-let to Travis Perkins with construction completed in November and the scheme fully let by June. At Feltham a 41,000sqft distribution depot was forward funded, fully pre-let to Geopost and achieved practical completion in June.

The Trade City brand for industrial development performed well with funded schemes at Hayes (60,000sqft) and Uxbridge (120,000sqft) reaching practical completion in the second half with strong interest from potential occupiers. Investors continue to show interest in the Trade City brand with recent deals signed with DTZIM and Investec, the latter releasing up to £50m of funding for future Trade City developments.

[1] Underlying operating profits and margins are stated before exceptional items and amortisation of intangible assets relating to contract rights. Reported Property operating profit was £18.5m (2013: £20.5m).

With an improvement in the London and south east economy, the office development market has been active. Examples of such opportunities include a 60,000sqft office development in Hammersmith, London which was acquired for £11m and in which Investec has become our joint venture partner. The property has planning permission for offices over seven floors and will be redeveloped, with construction set to commence in early 2015. In addition demolition work is underway at Audit House, 58 Victoria Embankment, London in which Kier holds a 16% equity stake and is the development manager, with Kier Construction appointed as building contractor. In Northampton, a five year option agreement on the Waterside site with Northampton Borough Council for office use was also signed. These opportunities reflect the buoyancy of the office market.

In the retail and mixed-use sector, construction commenced on the £25m retail and leisure development at Catterick in joint venture with Lingfield. The cinema and food and beverage outlets are pre-let and the retail units more than 80% pre-let with the remainder of the space under offer.

In the hotel sector, a 108 room Travelodge and retail units at Hemel Hempstead were sold for a total cash consideration of £8m and in August, construction started on a 222 bed hotel for Motel 1 in Newcastle.

Solum Regeneration, our joint venture with Network Rail, has in excess of £500m of mixed used schemes in its portfolio and a number of significant regeneration schemes are underway including Christchurch, Guildford, Haywards Heath, Redhill, Twickenham and Walthamstow.

Last September the £240m Watford Health Campus project reached its first critical milestone with the award of planning for the main link road through the site. Construction of the road using third party funding is expected to start later this year and will enable the phased land draw-down and development of the remainder of the scheme. The scheme is for the regeneration of land around the Watford General Hospital and will deliver 375,000sqft of mixed-use development to the area, including 650 new homes.

PFI and structured finance

The strategy to sell mature PFI investments continued with the disposal of Kier's equity stakes in the North Kent Police project and Kent Schools project for a total consideration of £16m, representing a valuation discount rate on future cash flows of approximately 7%. The portfolio of PFI investments was also replenished. Financial close was reached on both the London Fire Service and Staffordshire Fire Service PFI schemes, which between them will provide twenty new fire stations at a combined value of £73m, and also the Woking PFI housing scheme in consortium with Thames Valley Housing.

In the education sector Kier was named preferred bidder for the North and East Ayrshire Schools DBFM schemes as part of its investment in the South West Hub scheme in Scotland. With the market for student accommodation increasing, an £81m contract to build and maintain 1,376 rooms of student accommodation at Salford University was closed and we have purchased one building and completed another for delivery of 264 student rooms in Glasgow.

The current portfolio of PFI projects totals eight schemes, two at preferred bidder and the remainder in construction or operational. The committed equity investment stands at £19m (2013: £22m) of which £11m (2013: £15m) has been invested to date. The directors' valuation at a discount rate of 7.5% is £34m (2013: £35m).

Renewable energy firm Biogen, a 50/50 joint venture between Kier and Bedfordia, secured £10m of further funding from the Royal Bank of Scotland (RBS), taking the total funding to £22m under a fully flexible arrangement to support the continued expansion of the business. During the year construction was completed on two new Biogen plants in Wales and financial close reached with the Tomorrow's Valley Hub for a plant in Rhondda, South Wales. With two further plants underway in Hertfordshire and Warwickshire, this brings the total number of plants either operating, in construction or planning to seven. Kier has a 50% investment in Biogen (UK) Holdings Ltd which develops, constructs and operates these facilities.

Residential

The past twelve months have seen a sustained recovery in the UK housing market and significantly increased levels of activity in both our private and housing businesses resulting in a significant increase in revenue. In the year our partnership homes business completed 461 units with £25m invested. Highlights of the period for the affordable homes business included the commencement of Manor Kingsway, a flagship £90m development in Derby where 32 new homes were completed and the completion of 68 new homes in Balaam Wood, Birmingham.

In our private housing business, Kier homes, we completed 601 units from a sales rate of 0.7 units per active site per week. The homes business completed the purchase of 290 plots across four sites and exchanged conditional contracts on a further 300 plots which when combined with unit and land sales resulted in the land bank reducing to 3,672 plots (June 2013: 4,005). The Government Help to Buy scheme contributed 42% of private sales.

Sixteen new developments commenced on our own land over the past twelve months at Aylesbury, Gamlingay, Harlow, Little Paxton St Neots, Worthing, and Paisley near Glasgow.

Property and Residential outlook

Development activity is mainly influenced by occupier requirements which are improving across the UK. Equally, this demand is being supported by an increase in lending from banks and major institutions in the development market. The structured finance business is exploring new markets including the student accommodation and elderly care markets with further scope for developments with local authorities. The non speculative approach of the property development business will continue, with invested capital increasing to £200m by 2020 enabling larger opportunities and a ROCE target towards 20%.

From 1 July 2014 Kier's house building activities were brought into one division branded Kier Living, enabling the Group to scale up its residential activities whilst redeploying our land bank into mixed-tenure and social housing. Kier Living is well placed to respond to the demand for more new houses.

Demand for Kier's affordable housing market remains high with a forward order book of more than £400m representing 3,400 plots. There is a good flow of opportunities from our partnerships and frameworks with the HCA, local authorities and housing associations which, when linked to the Government's affordable housing grant programme, will provide a strong platform for housing growth and affordable housing delivery taking the combined residential activity of this new division to 4,000 units by 2020.

Construction

The Construction division comprises the UK building, major projects, infrastructure and international operations.

	Year ended June 2014	Year ended June 2013	*Change*
Revenue	**£1,597m**	£1,307m	***+22%***
Operating profit[1]	**£33.6m**	£30.4m	***+11%***
Operating margin[1]	**2.1%**	2.3%	

	June 2014	June 2013	*Change*
Order book (secure and probable)	**£2.5bn**	£2.3bn	***+12%***
Cash	**£274m**	£319m	

Revenue was up 22% to £1.6bn (2013: £1.3bn) reflecting significant market and contract growth over the period, particularly within the infrastructure and international businesses. This resulted in an operating profit increase of 11% to £33.6m (2013: £30.4m). Operating margins were resilient at 2.1% (2013: 2.3%). The cash position at 30 June 2014 of £274m held up well given the continued challenging working capital conditions.

The order book of secured and probable work, at £2.5bn, represents more than 90% of the forecast revenue for the 2015 financial year, on increasing volumes.

The increase in market activity has resulted in some price inflation with rising labour costs and commodity prices. However, Kier's use of frameworks, greater use of two stage bidding and established supply chain management helped to mitigate this impact. Kier has a large presence in the health, education, defence, commercial and residential sectors with an evenly balanced contribution from both public and private sectors.

UK regional building and major projects

The improvement in the construction market in the south, and increasingly in the north and regions, has seen growth particularly in the commercial and residential sector with revenues in excess of £900m.

The increased building of high-rise flats and regeneration projects, particularly in London, has generated significant opportunities for Kier's major projects business such as the Argent development at King's Cross where work on the £74m T1 mixed-use and residential development commenced this year. The £50m Knight Dragon high-rise residential project on the Greenwich Peninsula, where Kier has been appointed as preferred bidder, illustrates the increasing demand in the high-rise sector. Regeneration schemes are also flourishing outside of London, including the £600m Cardiff Pointe mixed-use scheme, where Kier is building the first phase of ninety-eight luxury townhouses and apartments including an ice rink.

With a spread of regional operations and an established supply chain, Kier is well placed for local and regional framework opportunities, operating on over forty headline frameworks. During the year a record level of opportunities and awards were secured from this source. Regional and local frameworks, like the south-east and south-west Wales contractors frameworks which are soon to be awarded, are particularly key to local economies supporting local training schemes and highlight Kier's regional penetration.

[1] Underlying operating profits and margins are stated before exceptional items and amortisation of intangible assets relating to contract rights. Reported Construction operating profit was £25.4m (2013: £21.4m).

Kier continues to be very active in the health sector with work continuing on the £120m Broadmoor redevelopment and the £43m West London Mental Health Trust. Kier was selected as preferred bidder on fifteen of the twenty-three schemes announced under the National ProCure 21+ framework in the period, in total worth more than £500m. As a leading provider on the ProCure 21+ framework, awards included the £130m University of North Staffordshire NHS Development and Capital Programme and a new £22m Emergency Centre for the Royal Wolverhampton NHS Trust which is already under construction.

The Education Funding Agency (EFA) procures around £2bn of education facilities through its national and other complementary frameworks. Kier has recently been awarded a place on all six of the EFA regional frameworks with a combined opportunity value up to £5bn over the next 4 years. Kier has secured up to £290m of EFA funded schemes through either the EFA Contractors Frameworks or the LHC Frameworks. Notable awards in the period include three Priority Schools Building Programme schemes in the north east, east and Nottingham worth a combined £154m.

The number of local authorities utilising the Scape National Minor Works Framework continues to increase and has resulted in £120m of awards to Kier in the period. It is anticipated that the benefits of procuring minor works through an effective performance managed framework will result in greater activity via the framework over the next twelve months.

In the defence sector, the three-year £400m National Ministry of Defence (MoD) framework for capital works up to £50m is now providing a visible pipeline of opportunities. This complements the significant progress the Group made in the year of developing its presence in the defence sector following the award of the £121m first phase of the Defence Technical Training change programme at RAF Lyneham, secured in December 2013.

Post year-end a contract was awarded to build a new 270,000sqft HQ for Total E&P UK in Aberdeen, construction commencing spring 2015.

Infrastructure

With revenues c£400m in the year and future UK Government investment in power, roads, rail and water anticipated, this business performed strongly.

Kier is the UK’s largest builder of gas-fired power stations and has many opportunities across the power sector including work on Phase 2 at the Hinkley Point C nuclear power station. Work in this sector is also continuing with Urenco and Sellafield and there are future opportunities over the medium to long term. In the energy sector, work is progressing well on our energy from waste projects in both Plymouth and Wakefield which are scheduled to complete in the next financial year.

With economic growth a priority and roads and highways playing a vital role in achieving this goal, growth in the highways and bridges sectors continued, culminating in the financial close of the £450m Mersey Gateway six lane toll bridge and the successful completion of the Berryfield’s Link road.

Our penetration of the rail and water sectors has benefited from the integration of May Gurney, which provides a larger, more sustainable workload for the infrastructure business and broader client exposure. Kier has won places on a number of rail frameworks including the Network Rail Western and Wales regional framework, level crossing and type C signalling frameworks. Work on Crossrail progresses well with completion of some of the works at both Liverpool Street and the western running tunnels expected in the next twelve months. In the water sector work began on the £180m Deephams sewerage treatment works upgrade, in joint venture with Aecom and Murphy, with additional water projects in excess of £100m to deliver under the United Utility AMP 6 framework in joint venture with Murphy and Interserve.

International

The international business doubled revenue, despite operational challenges and time delays in the Mass Transit Rail Corporation timetable that affected the Hong Kong joint venture infrastructure contracts. Growth was underpinned by major project successes in the Caribbean and the Middle East, including the £43m Park Hyatt Hotel in St. Kitts, two infrastructure projects, the Dubai Parks project worth £47m and the Dubai University, a prestigious building contract of approximately £26m, together with the ongoing major rail contracts in Hong Kong.

Post year end two contracts totaling c£120m were awarded in Abu Dhabi; the £105m joint venture contract award for a prestigious hotel and spa in Abu Dhabi and the £87m joint venture with Mercury to build a new data centre for a UAE bank.

Construction outlook

The Construction division's performance this year was supported by a more buoyant UK market which is growing at approximately 5%* a year. This trend provides opportunities particularly in new market sectors such as industrials, defence and aviation. It is anticipated that completion of the European review of the nuclear sector expected in October will see further investment in nuclear power and provide clarity on other forms of power generation. The outlook for national frameworks over the next twelve months is predicted to provide a steady stream of opportunities particularly in the health, education and defence sectors.

It is anticipated that there will be a rising level of opportunities in the UAE supporting growth in our international operations. In Dubai, the real estate, tourism, transportation and infrastructure sectors are all yielding good opportunities as the economy recovers strongly and as the Emirate prepares for EXPO 2020. In Abu Dhabi, there is also a growing pipeline of good prospects across transportation, tourism, healthcare, education, industrials, water and defence, as well as a steady stream of opportunities in the oil and gas sector.

In the Caribbean there remains a steady stream of opportunities in the private sector, particularly in the tourism sector, resulting in major hotel projects in both Haiti and St Kitts.

The order book of secured and probable work at £2.5bn, includes more than 90% of the forecast revenue for the 2015 financial year, on increasing volumes. With increased infrastructure and international business, it is anticipated that the Construction division margin will increase to 2.5% over the next 5 to 6 years.

* source CPA

Services

The Services division comprises highways maintenance, utilities, facilities management, housing maintenance, environmental and fleet & passenger services.

	Year ended 30 June 2014	Year ended 30 June 2013	Change	Like for like
Revenue	**£1,104m**	£437m	**+153%**	**+4%**
Operating profit[1]	**£53.3m**	£19.3m	**+176%**	**+12%**
Operating margin[1]	**4.8%**	4.4%		

	June 2014	June 2013	Change	Like for like
Order book (secure and probable)	**£3.7bn**	£2.0bn	***+85%***	**+1%**
Cash	**£13m**	£30m		

Revenue was up 153% to £1.1bn (2013: £437m) benefiting from the increased breadth of capability and strengthening of client-partnerships following the May Gurney integration which has been substantially completed. Operating profit[1] of £53.3m (2013: £19.3m) was up 176%. An increase in operating margin[1] to 4.8% reflects the increased range of services available to clients and the ability to bid for a greater number and larger scale contracts. As anticipated, £5m of cost savings was delivered with a further £20m by 2016. The fair value of the loss-making contracts of May Gurney, was assessed in the year and a provision of £73m has been taken, a slight increase since December 2013 reflecting completion of further contract and balance sheet reviews.

The order book at 30 June 2014 of £3.7bn (2013: £2.0bn) provides a good visibility of work, having secured over £1.1bn of new contracts during the year including the £1.7bn May Gurney order book. This includes more than 90% of targeted revenue for 2015. The order book does not include contract extensions, which, if included, would add a further £2.1bn to the order book.

The cash position of £13m at 30 June 2014 reflects the £37m overdraft acquired with May Gurney and continued investment in future growth.

The May Gurney acquisition has significantly strengthened Kier's penetration of the utilities and highways maintenance marketplaces, as well as giving the division an increased presence in environmental services. Kier's overall market share being below 1.5% in addressable services market worth in excess of £80bn. Therefore there is significant room for further penetration.

Greater co-operation between our Construction and Services divisions has resulted in larger contract awards in the year, for example, Anglian Water, where the client has procured both maintenance services and capex construction capabilities from the Group.

Over 70% of Services revenue comes from the public sector where budgets are increasingly constrained. With austerity still on the agenda, public sector bodies are continuing to outsource, albeit smaller value individual contracts, reflecting reduced budgets. Bundled service contracts, such as that with Torbay Council, provide clients with a breadth of offerings and enable to provide cross sector packages including bespoke packages of support covering investment, building and maintenance. In addition, many of our skills, such as housing maintenance, are transferable to private sector clients and further inroads are being made on increasing our presence in this market, as evidenced by the award of the Genesis and Metropolitan housing maintenance contracts.

[1] Underlying operating profits and margins are stated before exceptional items and amortisation of intangible assets relating to contract rights. Reported Services operating profit was £32.6m (2013: £9.3m).

Utilities

Kier’s penetration of the utilities sector continues to expand into the water, energy and telecoms. Contract awards, including awards under the AMP6 bidding cycle, have been high in the year totalling £374m, demonstrating the greater capability of the Group. Most recent AMP6 awards include three five-year Anglian Water contracts with a total value of £250m and a contract worth up to £24m with Bournemouth Water. In addition, a £20m pa network maintenance services programme has been secured with Bristol Water. In August this year the £25m pa Canal & River Trust National Engineering & Construction Contract (NECC) for England and Wales was secured and Kier was named preferred bidder on Severn Trent’s two-year £7m pa contract for provision of asset maintenance solutions with a possible five-year extension.

Through the Team Van Oord joint venture, £21m worth of projects have been awarded by the Environment Agency for flood defence and flood remediation work.

In the power distribution sector, this year’s awards have included a new £107m five-year utilities contracts with Western Power Distribution, giving Kier a foothold in this market and extending Kier's operational reach across Somerset and Bristol.

Further opportunities exist in the AMP6 cycle as well as new opportunities in the power transmission and fixed telecoms markets.

Housing maintenance

With Kier’s established track record in housing maintenance, new awards in the year were over £430m and included the £110m three-year Sheffield housing maintenance contract with additional contracts from Aberdeenshire Council, Riverside Housing Association in Merseyside and through the North East Procure Framework.

Kier was selected by Grainger plc, the UK's largest listed residential property owner and manager, to be the sole provider of tenant repairs and maintenance services across its UK portfolio. The contract, which commenced on 1 September 2013, is for a ten-year period and has an annual value of £5m. In addition, an initial £110m contract with Metropolitan Housing commenced, with further opportunities with this client in the pipeline. A four-year £140m repairs and maintenance contract commences this October with Genesis Housing Association, one of the G15 housing associations, providing support to over 33,000 properties. Kier was also named preferred bidder for Four Housing Group on a £7m pa three-year contract for planned programme of works to homes in Northumberland. Further opportunities exist with other G15 housing associations.

Highways maintenance

The highways business is continuing to benefit from increased Government spending in infrastructure. The National Infrastructure Plan includes £24bn for highway maintenance and highway management. In addition the Autumn Statement confirmed that Central Government would invest an additional £1bn over a five-year programme on highways maintenance.

Operating across approximately one fifth of the UK landmass, our long-term, typically ten-year contracts, require consistent high quality service and working in partnership with local authorities. As a strategic partner, Kier can assist local authorities to refine their spending plans and discussions are underway with a number of councils including Northampton County Council, Surrey County Council and Suffolk County Council, where the new £200m contract was mobilised this year. Kier’s greater capability in this sector following the May Gurney acquisition has led to further opportunities with the Highways Agency.

Facilities management

The FM business is being reshaped and will be expanded both organically and by acquisition. The FM business delivered a record number of awards including Epsom and Ewell Borough Council, DTZ, London Fire PFI, Stoke and Staffordshire Fire PFI, QinetiQ, Sheffield City Council and the Welsh Government, reflecting client recognition of the importance of rigorous maintenance programmes and well managed life-cycle costs. After the year end, new contracts were awarded by Solent NHS, Kent County Council and Camden County Council for FM services, the latter's offices being built by Kier at King's Cross. These wins add scale and wider geography to the FM business.

Other

The acquired May Gurney environmental services businesses remain challenging. As previously reported, the environmental business and fleet and passenger services businesses remain under review.

Services Outlook

With increased attention on regulated sectors such as telecoms and water and the increasing pressure on local authority budgets, it is anticipated the number of opportunities available to the Services division will increase considerably. In the housing maintenance business, the sharing of our skillsets to other G15 authorities and selling to the private sector will continue. As well as extending our highways capability to existing and new clients, we continue to look at opportunities arising from the district councils and the Highways Agency. With a less than 0.5% market share in the sector, our FM business is focused on the strength of its technical services and growing its presence with private clients. Kier's range of capabilities and geographic reach position it well for further outsourcing opportunities in the future and it is anticipated that the Services division margin will grow to above 5%.

Consolidated income statement

For the year ended 30 June 2014

	Notes	2014 Underlying items* £m	2014 Non-underlying items including the amortisation of intangible contract rights* £m	2014 Total £m	2013 Underlying items*† £m	2013 Non-underlying items including the amortisation of intangible contract rights* £m	2013 Total† £m
Revenue							
Group and share of joint ventures	2	2,985.2	-	2,985.2	1,982.8	–	1,982.8
Less share of joint ventures	2	(30.9)	-	(30.9)	(39.8)	–	(39.8)
Group revenue		2,954.3	-	2,954.3	1,943.0	–	1,943.0
Cost of sales		(2,699.5)	(3.5)	(2,703.0)	(1,739.8)	(9.4)	(1,749.2)
Gross profit		254.8	(3.5)	251.3	203.2	(9.4)	193.8
Administrative expenses		(174.5)	(49.5)	(224.0)	(158.4)	(11.0)	(169.4)
Share of post-tax results of joint ventures		1.6	-	1.6	0.9	–	0.9
Profit on disposal of joint ventures		6.1	-	6.1	9.8	–	9.8
Profit from operations	2	88.0	(53.0)	35.0	55.5	(20.4)	35.1
Finance income		2.2	-	2.2	2.3	–	2.3
Finance cost		(17.1)	(5.3)	(22.4)	(10.2)	(1.3)	(11.5)
Profit before tax	2	73.1	(58.3)	14.8	47.6	(21.7)	25.9
Taxation	4a	(13.9)	9.8	(4.1)	(5.1)	4.8	(0.3)
Profit for the year		59.2	(48.5)	10.7	42.5	(16.9)	25.6
Attributable to:							
Owners of the parent		58.5	(48.5)	10.0	41.5	(16.9)	24.6
Non-controlling interests		0.7	-	0.7	1.0	–	1.0
		59.2	(48.5)	10.7	42.5	(16.9)	25.6
Earnings per share							
– basic	6	107.7p	(89.3)p	18.4p	105.6p	(43.0)p	62.6p
– diluted	6	106.9p	(88.6)p	18.3p	104.5p	(42.5)p	62.0p

* Non-underlying items include one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition. The prior year comparatives have been re-presented to reflect this presentation.

† Restated on adoption of the amendment to IAS 19 (see note 10).

Consolidated statement of comprehensive income

For the year ended 30 June 2014

	Notes	2014 £m	2013† £m
Profit for the year		10.7	25.6
Items that may be reclassified subsequently to the income statement			
Currency translation differences		(4.0)	0.2
Share of joint venture fair value movements in cash flow hedging instruments		15.1	4.7
Tax on share of joint venture fair value movements in cash flow hedging instruments	4c	(3.6)	(1.7)
Fair value movements in cash flow hedging instruments		(1.7)	-
Tax on fair value movements in cash flow hedging instruments		0.3	-
Total items that may be reclassified subsequently to the income statement		6.1	3.2
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit liabilities		(18.7)	(7.1)
Tax on actuarial losses on defined benefit liabilities	4c	(4.9)	(1.2)
Tax on provisions		(1.9)	-
Total items that will not be reclassified to the income statement		(25.5)	(8.3)
Other comprehensive loss for the year		(19.4)	(5.1)
Total comprehensive (loss)/income for the year		(8.7)	20.5
Attributable to:			
Owners of the parent		(9.4)	19.5
Non-controlling interests		0.7	1.0
		(8.7)	20.5

†Restated on adoption of the amendment to IAS 19 (see note 10).

Consolidated statement of changes in equity

For the year ended 30 June 2014

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Merger reserve £m	Attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 30 June 2012	0.4	55.0	2.7	110.0	(16.0)	0.2	–	152.3	1.9	154.2
Profit for the year	–	–	–	24.6†	–	–	–	24.6†	1.0	25.6†
Other comprehensive (loss)/income	–	–	–	(8.3)†	3.0	0.2	–	(5.1)†	–	(5.1)†
Dividends paid	–	–	–	(25.8)	–	–	–	(25.8)	(0.4)	(26.2)
Issue of own shares	–	8.3	–	–	–	–	–	8.3	–	8.3
Purchase of own shares	–	–	–	(1.7)	–	–	–	(1.7)	–	(1.7)
Share-based payments	–	–	–	4.0	–	–	–	4.0	–	4.0
Tax on share-based payments	–	–	–	(0.8)	–	–	–	(0.8)	–	(0.8)
At 30 June 2013	0.4	63.3	2.7	102.0	(13.0)	0.4	–	155.8	2.5	158.3
Profit for the year	–	–	–	10.0	–	–	–	10.0	0.7	10.7
Other comprehensive (loss)/income	–	–	–	(25.5)	10.1	(4.0)	–	(19.4)	–	(19.4)
Dividends paid	–	–	–	(37.3)	–	–	–	(37.3)	(0.2)	(37.5)
Issue of own shares	0.2	10.4	–	-	–	–	183.6	194.2	–	194.2
Purchase of own shares	–	–	–	(1.1)	–	–	–	(1.1)	–	(1.1)
Share-based payments	–	–	–	4.0	–	–	–	4.0	–	4.0
Tax on share-based payments	–	–	–	0.5	–	–	–	0.5	–	0.5
Transfers	–	–	–	(1.2)	–	–	1.2	–	–	–
At 30 June 2014	0.6	73.7	2.7	51.4	(2.9)	(3.6)	184.8	306.7	3.0	309.7

† Restated on adoption of the amendment to IAS 19 (see note 10)

Consolidated balance sheet

At 30 June 2014

	Notes	2014 £m	2013 £m
Non-current assets			
Intangible assets		323.8	30.0
Property, plant and equipment		192.4	109.2
Investment in joint ventures		40.9	29.7
Deferred tax assets		1.8	23.5
Trade and other receivables		23.5	29.6
Non-current assets		582.4	222.0
Current assets			
Inventories		470.4	399.4
Trade and other receivables		586.4	345.6
Corporation tax receivable		7.5	9.3
Assets held for sale		10.4	4.2
Cash and cash equivalents	9	112.4	152.3
Current assets		1,187.1	910.8
Total assets		1,769.5	1,132.8
Current liabilities			
Borrowings	9	(39.8)	–
Finance lease obligations		(27.6)	(2.7)
Other financial liabilities		(0.1)	(0.1)
Trade and other payables		(982.7)	(754.5)
Provisions		(27.9)	(17.6)
Current liabilities		(1,078.1)	(774.9)
Non-current liabilities			
Borrowings	9	(195.4)	(92.5)
Finance lease obligations		(59.4)	(11.0)
Other financial liabilities		(2.0)	(0.5)
Trade and other payables		(9.3)	(6.1)
Retirement benefit obligations	7	(59.8)	(49.7)
Provisions		(55.8)	(39.8)
Non-current liabilities		(381.7)	(199.6)
Total liabilities		(1,459.8)	(974.5)
Net assets	2	309.7	158.3
Equity			
Share capital		0.6	0.4
Share premium		73.7	63.3
Capital redemption reserve		2.7	2.7
Retained earnings		51.4	102.0
Cash flow hedge reserve		(2.9)	(13.0)
Translation reserve		(3.6)	0.4
Merger reserve		184.8	–
Equity attributable to owners of the parent		306.7	155.8
Non-controlling interests		3.0	2.5
Total equity		309.7	158.3

Consolidated cash flow statement

For the year ended 30 June 2014

	Notes	2014 £m	2013 £m
Cash flows from operating activities			
Profit before tax		14.8	25.9†
Exceptional items		42.2	17.0
Net finance cost		20.2	9.2
Share of post-tax trading results of joint ventures		(1.6)	(0.9)
Normal cash contributions to pension fund in excess of pension charge		1.3	2.0†
Equity settled share-based payments charge		4.0	4.0
Negative goodwill recognised, amortisation and impairment of intangible assets		10.8	4.3
Depreciation charges		41.5	12.7
Profit on disposal of joint ventures		(6.1)	(9.8)
Profit on disposal of property, plant and equipment		(4.5)	(1.7)
Operating cash flows before movements in working capital		122.6	62.7
Special contributions to pension fund		(8.0)	(20.1)
Increase in inventories		(7.0)	(4.7)
(Increase)/decrease in receivables		(156.3)	35.2
Increase/(decrease) in payables		96.3	(69.0)
(Decrease)/increase in provisions		(31.7)	1.6
Cash inflow from operating activities before exceptional items		15.9	5.7
Cash flow from exceptional items		(35.6)	(11.0)
Cash flows from operating activities		(19.7)	(5.3)
Dividends received from joint ventures		0.3	0.2
Interest received		2.2	2.3
Income taxes received	4b	11.3	3.5
Net cash (outflow)/inflow from operating activities		(5.9)	0.7
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		6.0	2.9
Proceeds from sale of joint ventures	8d	17.3	13.0
Purchases of property, plant and equipment		(48.2)	(22.1)
Purchase of intangible assets		(6.2)	(5.5)
Investment in assets held for resale		(4.0)	-
Acquisition of subsidiaries	8a	(65.6)	(31.5)
Net investment in joint ventures		(11.7)	(19.2)
Overdraft acquired	8b	(16.8)	-
Net cash used in investing activities before exceptional disposal proceeds		(129.2)	(62.4)
Exceptional proceeds on disposal of plant business net of disposal costs		4.2	13.0
Net cash used in investing activities		(125.0)	(49.4)
Cash flows from financing activities			
Issue of shares		2.2	7.0
Purchase of own shares		(1.1)	(1.7)
Interest paid		(14.2)	(5.8)
Inflow from finance leases on property, plant and equipment		40.3	6.6
Inflow from new borrowings		102.9	92.5
Finance lease repayments		(29.6)	(1.5)
Repayment of borrowings		(20.0)	(30.3)
Dividends paid to owners of the parent		(29.1)	(24.5)
Dividends paid to non-controlling interests		(0.2)	(0.4)
Net cash generated by financing activities		51.2	41.9
Decrease in cash and cash equivalents		(79.7)	(6.8)
Opening cash and cash equivalents		152.3	159.1
Closing cash and cash equivalents	9	72.6	152.3

† Restated on adoption of the amendment to IAS 19 (see note 10)

Notes to the consolidated financial statements

1 Accounting policies

There have been no significant changes to the accounting policies in these financial statements other than the adoption of IAS 19R which has resulted in a re-presentation of the accounting for defined benefit pension schemes, but with no overall impact on the pension deficit (see note 10). They have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

2 Segmental reporting

The Group operates three divisions, Property, Construction and Services which is the basis on which the Group manages and reports its primary segmental information. Corporate includes unrecovered overheads and the charge for defined benefit pension schemes. From 1 July 2014 the Group will operate four divisions: Property, Residential, Construction and Services.

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.

Year to 30 June 2014	Property[5] £m	Construction £m	Services £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	284.1	1,597.0	1,104.1	-	2,985.2
Less share of joint ventures	(24.4)	(6.5)	-	-	(30.9)
Group revenue	259.7	1,590.5	1,104.1	-	2,954.3
Profit					
Group operating profit	14.4	32.5	53.3	(19.9)	80.3
Share of post–tax results of joint ventures	0.5	1.1	-	-	1.6
Profit on disposal of joint ventures	6.1	-	-	-	6.1
Underlying operating profit	21.0	33.6	53.3	(19.9)	88.0
Underlying net finance (costs)/credits[2]	(13.4)	5.6	(4.5)	(2.6)	(14.9)
Underlying profit before tax	7.6	39.2	48.8	(22.5)	73.1
Exceptional items	(2.4)	(7.8)	(10.4)	(21.6)	(42.2)
Amortisation of intangible assets relating to contract rights	(0.1)	(0.4)	(10.3)	-	(10.8)
Non-underlying net finance costs	(0.3)	-	(5.0)	-	(5.3)
Profit before tax	4.8	31.0	23.1	(44.1)	14.8
Balance sheet					
Total assets excluding cash	446.7	540.0	432.0	238.4	1,657.1
Liabilities excluding borrowings	(61.3)	(638.9)	(382.0)	(142.4)	(1,224.6)
Net operating assets/(liabilities)[3]	385.4	(98.9)	50.0	96.0	432.5
Cash, net of borrowings	(304.2)	273.9	13.2	(105.7)	(122.8)
Net assets/(liabilities)	81.2	175.0	63.2	(9.7)	309.7
Other information					
Inter–segmental revenue[4]	1.5	10.3	130.0	8.4	150.2
Capital expenditure	1.0	3.2	35.2	8.8	48.2
Depreciation of property, plant and equipment	0.2	8.5	29.2	3.6	41.5
Amortisation of computer software	-	-	-	1.1	1.1

[1] Revenue is stated after the exclusion of inter–segmental revenue.
[2] Interest was (charged)/credited to the divisions at a notional rate of 4.5% and 4.0% respectively.
[3] Net operating assets/(liabilities) represent assets excluding cash, borrowings and interest bearing intercompany loans.
[4] Inter-segmental pricing is determined on an arms length basis.
[5] Results for Property include the Residential business, created on 1 July 2014. These results will be separately disclosed in the year to 30 June 2015.

Notes to the consolidated financial statements continued

2 Segmental reporting continued

Year to 30 June 2013	Property[5] £m	Construction £m	Services £m	Corporate† £m	Group† £m
Revenue[1]					
Group and share of joint ventures	238.0	1,307.4	437.4	–	1,982.8
Less share of joint ventures	(33.6)	(6.2)	–	–	(39.8)
Group revenue	204.4	1,301.2	437.4	–	1,943.0
Profit					
Group operating profit	10.2	30.0	19.3	(14.7)	44.8
Share of post–tax results of joint ventures	0.5	0.4	–	–	0.9
Profit on disposal of joint ventures	9.8	–	–	–	9.8
Underlying operating profit	20.5	30.4	19.3	(14.7)	55.5
Underlying net finance (costs)/credits[2]	(12.9)	7.6	(0.8)	(1.8)	(7.9)
Underlying profit before tax	7.6	38.0	18.5	(16.5)	47.6
Exceptional items	–	(8.9)	(6.7)	(1.4)	(17.0)
Amortisation of intangible assets relating to contract rights	–	(0.1)	(3.3)	–	(3.4)
Non-underlying net finance costs	(1.3)	–	–	–	(1.3)
Profit before tax	6.3	29.0	8.5	(17.9)	25.9
Balance sheet					
Total assets excluding cash	425.5	370.2	131.4	53.4	980.5
Liabilities excluding borrowings	(81.0)	(568.4)	(129.1)	(103.5)	(882.0)
Net operating assets/(liabilities)[3]	344.5	(198.2)	2.3	(50.1)	98.5
Cash, net of borrowings	(266.9)	319.3	30.0	(22.6)	59.8
Net assets/(liabilities)	77.6	121.1	32.3	(72.7)	158.3
Other information					
Inter–segmental revenue[4]	0.3	10.2	35.5	13.1	59.1
Capital expenditure	1.6	6.7	8.1	10.6	27.0
Depreciation of property, plant and equipment	0.2	5.4	4.1	3.0	12.7
Amortisation of computer software	–	–	–	0.9	0.9

[1] Revenue is stated after the exclusion of inter–segmental revenue.
[2] Interest was (charged)/credited to the divisions at a notional rate of 4.5% and 4.0% respectively.
[3] Net operating assets/(liabilities) represent assets excluding cash, borrowings and interest bearing intercompany loans.
[4] Inter-segmental pricing is determined on an arms length basis.
[5] Results for Property include the Residential business, created on 1 July 2014. These results will be separately disclosed in the year to 30 June 2015.
† Restated on adoption of the amendment to IAS 19 (see note 10)

Notes to the consolidated financial statements continued

3 Non-underlying items

	2014 £m	2013* £m
Costs relating to the acquisition of May Gurney	(8.1)	(1.8)
Restructuring and transformation costs following the acquisition of May Gurney	(29.6)	-
Construction workers compensation scheme costs	(4.5)	-
Business restructuring	-	(10.1)
Provision for loss on disposal of tower crane and other discontinued businesses	-	(3.2)
Closure and discontinuation of the Scaffolding and related businesses	-	(1.9)
Exceptional items before tax	(42.2)	(17.0)
Tax on exceptional items	6.4	3.7
Exceptional items after tax	(35.8)	(13.3)
Amortisation of intangible contract rights	(10.8)	(3.4)
Tax on amortisation of intangible contract rights	2.2	0.8
Exceptional items and amortisation of intangible contract rights after tax	(44.4)	(15.9)
Acquisition discount unwind	(5.3)	(1.3)
Tax on acquisition discount unwind	1.2	0.3
Exceptional items, amortisation and acquisition discount unwind after tax	(48.5)	(16.9)

*Non-underlying items include one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition. The prior year comparatives have been re-presented to reflect this presentation.

Notes to the consolidated financial statements continued

4 Taxation

a) Recognised in the income statement

	2014 Underlying items* £m	2014 Non-underlying items including the amortisation of intangible contract rights* £m	2014 Total £m	2013 Underlying items† £m	2013 Non-underlying items including the amortisation of intangible contract rights † £m	2013 Total† £m
Current tax expense						
UK corporation tax	8.2	(8.2)	-	3.8	(3.8)	–
Adjustments for prior years	(0.2)	-	(0.2)	(2.1)	–	(2.1)
Total current tax	8.0	(8.2)	(0.2)	1.7	(3.8)	(2.1)
Deferred tax expense						
Origination and reversal of temporary differences	9.3	(1.6)	7.7	5.2	(1.0)	4.2
Rate change effect on deferred tax	(5.4)	-	(5.4)	(1.4)	–	(1.4)
Adjustments in respect of prior years	2.0	-	2.0	(0.4)	–	(0.4)
Total deferred tax	5.9	(1.6)	4.3	3.4	(1.0)	2.4
Total tax charge/(credit) in the income statement	13.9	(9.8)	4.1	5.1	(4.8)	0.3
Reconciliation of effective tax rate						
Profit before tax	73.1	(58.3)	14.8	47.6	(21.7)	25.9
Adjust: tax on joint ventures included above	0.1	-	0.1	(0.2)	–	(0.2)
Adjusted profit before tax	73.2	(58.3)	14.9	47.4	(21.7)	25.7
Income tax at UK corporation tax rate of 22.5% (2013: 23.75%)	16.5	(13.1)	3.4	11.2	(5.1)	6.1
Non–deductible expenses	2.5	3.3	5.8	0.1	0.3	0.4
Effect of change in UK corporation tax rate	(5.4)	-	(5.4)	(1.4)	–	(1.4)
Capital gains not taxed	(1.4)	-	(1.4)	(1.2)	–	(1.2)
Tax relief on expenses not recognised in the income statement	(0.2)	-	(0.2)	(0.7)	–	(0.7)
Effect of tax rates in foreign jurisdictions	0.2	-	0.2	(0.2)	–	(0.2)
Deferred tax asset on tax losses in joint ventures	-	-	-	(0.4)	–	(0.4)
Adjustments in respect of prior years	1.8	-	1.8	(2.5)	–	(2.5)
Total tax (including joint ventures)	14.0	(9.8)	4.2	4.9	(4.8)	0.1
Tax on joint ventures	(0.1)	-	(0.1)	0.2	–	0.2
Group tax charge/(credit)	13.9	(9.8)	4.1	5.1	(4.8)	0.3

* Non-underlying items include one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition. The prior year comparatives have been re-presented to reflect this presentation.

† Restated on adoption of the amendment to IAS 19 (see note 10).

Kier Group and its subsidiaries are based predominantly in the UK and are subject to UK corporation tax. Where Kier operates overseas this will generally be either through UK resident companies or branches of UK companies, and therefore these companies will pay UK corporation tax subject to the offset of local overseas tax. The Group does not have an aggressive tax policy and has not entered into any tax avoidance schemes which were, or should have been, notified to HMRC under the Disclosure of Tax Avoidance Schemes (DOTAS) rules during the year or previous year.

The tax charge before exceptional items and amortisation of contract rights of £13.9m (2013: £5.1m) shown in the table above equates to an effective tax rate of 19% (2013: 11%) on adjusted profit before tax of £73.2m (2013: £47.4m). This effective rate is lower than the standard rate of corporation tax of 22.5% (2013: 23.75%) due to a number of items shown in the table above. The increase in non-deductible expenses relates mainly to acquisition costs on May Gurney and permanent differences on provisions.

The effect of the change in the UK corporation tax rate arises principally as a result of the impact of the rate change on the deferred tax asset related to the retirement benefit obligations. In accordance with accounting standards the effect of the change in the tax rate on the deferred tax balance is recognised in the same primary statement that the original deferred balance was recognised. The original deferred tax balance relating to the retirement benefit obligation is made up of two larger amounts that were previously recognised in part through the income statement and in part through the statement of comprehensive income. This has resulted in a credit in the income statement and a charge in the statement of comprehensive income for the years ended 30 June 2013 and 30 June 2014.

In accordance with UK tax legislation, capital gains arising on disposal of certain investments, including some of the joint ventures disposed of during the year, are not subject to tax.

Tax relief on expenses not recognised in the income statement includes the impact of the tax deduction received in respect of the cost of shares exercised under the Group's employee Save As You Earn Scheme and the Long Term Incentive Plan.

4 Taxation continued

The adjustment in respect of prior years results from differences between the estimates of taxation included in the previous year's financial statements and the actual tax liabilities calculated in the tax returns submitted to and agreed by HMRC.

b) Recognised in the cash flow statement
The cash flow statement shows a repayment of £11.3m during the year (2013: £3.5m). £9.4m relates to May Gurney which primarily is a result of losses on onerous contracts.

c) Recognised in the statement of comprehensive income

	2014 £m	2013† £m
Deferred tax expense		
Share of fair value movements on joint venture cash flow hedging instruments	3.6	1.7
Fair value movements on cash flow hedging instruments	(0.3)	-
Actuarial losses on defined retirement benefit obligations	4.9	1.2
Provisions	1.9	-
Total tax charge in the statement of comprehensive income	**10.1**	2.9

† Restated on adoption of the amendment to IAS 19 (see note 10)

d) Factors that may affect future tax charges
The Chancellor has so far cut the main rate of corporation tax from 24% to 21% since 2012, and announced it will reduce further by an additional 1% in April 2015, so it will reach 20%.

The corporation tax reduction from 23% to 21% became effective from 1 April 2014, and a further reduction to 20% effective from 1 April 2015, were both substantively enacted on 2 July 2013.

The reduction to 20% has had the effect of reducing the net deferred tax asset by £1.1m, with £5.4m being credited to the income statement and £6.5m being charged directly to the statement of comprehensive income.

This will reduce the Group's future tax charge accordingly.

The deferred tax balance as at the year end has been recognised at 20%.

e) Tax losses
At the balance sheet date the Group has unused income tax losses of £14.8m (2013: £10.3m) available for offset against future profits.
A deferred tax asset has been recognised in respect of £14.7m (2013: £10.2m) of these losses. No deferred tax asset has been recognised in respect of the remaining losses, due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

5 Dividends

Amounts recognised as distributions to owners of the parent in the year:	2014 £m	2013 £m
Final dividend for the year ended 30 June 2013 of 46.5 pence (2012: 44.5 pence)	25.0	17.3
Interim dividend for the year ended 30 June 2014 of 22.5 pence (2013: 21.5 pence)	12.3	8.5
	37.3	25.8

The proposed final dividend of 49.5 pence (2013: 46.5 pence) bringing the total dividend for the year to 72.0 pence (2013: 68.0 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The proposed dividend totalling circa £27.1m will be paid on 28 November 2014 to shareholders on the register at the close of business on 26 September 2014. A scrip dividend alternative will be offered.

Notes to the consolidated financial statements continued

6 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, the amortisation of intangible assets relating to contract rights and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition..

	2014		2013†	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings after tax and non-controlling interests, being net profits attributable to owners of the parent	10.0	10.0	24.6	24.6
Add exceptional items	42.2	42.2	17.0	17.0
Less tax thereon	(6.4)	(6.4)	(3.7)	(3.7)
Earnings excluding exceptional items	45.8	45.8	37.9	37.9
Add amortisation of intangible assets relating to contract rights	10.8	10.8	3.4	3.4
Less tax thereon	(2.2)	(2.2)	(0.8)	(0.8)
Earnings excluding exceptional items and amortisation of intangible contract rights	54.4	54.4	40.5	40.5
Add acquisition discount unwind*	5.3	5.3	1.3	1.3
Less tax thereon	(1.2)	(1.2)	(0.3)	(0.3)
Adjusted earnings	58.5	58.5	41.5	41.5
	million	million	million	million
Weighted average number of shares in issue	54.3	54.3	39.3	39.3
Weighted average impact of LTIP and Sharesave Scheme	-	0.4	–	0.4
Weighted average number of shares used for earnings per share	54.3	54.7	39.3	39.7
	pence	pence	pence	pence
Earnings per share	18.4	18.3	62.6	62.0
Adjusted earnings per share (excluding exceptional items, amortisation of intangible contract rights and acquisition discount unwind).	107.7	106.9	105.6	104.5

†Restated on adoption of the amendment to IAS 19 (see note 10).

*Unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition

On 8 July 2013 14.7 million shares were issued in connection with the acquisition of May Gurney.

7 Retirement benefit obligations

The amounts recognised in respect of the Group's defined benefit schemes are as follows:

	Kier Group Pension Scheme		Kier Sheffield LLP		Other	
	2014 £m	2013† £m	2014 £m	2013† £m	2014 £m	2013 £m
Opening (deficit)/surplus	(48.7)	(59.0)	(1.0)	1.2	–	–
Acquired surplus	–	–	–	–	3.7	–
(Charge)/credit to income statement	(12.1)	(13.2)	(2.0)	(2.8)	0.1	–
Employer contributions	16.4	29.4	2.1	1.8	0.3	–
Actuarial (losses)/gains	(18.7)	(5.9)	0.9	(1.2)	(0.8)	–
Closing (deficit)/surplus	(63.1)	(48.7)	–	(1.0)	3.3	–
Comprising:						
Fair value of assets	837.1	783.7	–	182.9	74.6	–
Net present value of defined benefit obligation	(900.2)	(832.4)	–	(183.9)	(71.3)	–
Net (deficit)/surplus	(63.1)	(48.7)	–	(1.0)	3.3	–
Related deferred tax asset/(liability)	12.6	11.2	–	0.2	(0.7)	–
Net pension (liability)/asset	(50.5)	(37.5)	–	(0.8)	2.6	–

†Restated on adoption of the amendment to IAS 19 (see note 10).

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

- In July 2012 £5.0m which was settled in cash; and
- In June 2013, £7.1m which was settled through the transfer of the Group's interest in the Sydenham development site into Kier Sydenham LP, an equal partnership between the Group and the Scheme.

These amounts have been included as contributions received by the Scheme. No special contributions were made in the year to 30 June 2014.

Notes to the consolidated financial statements continued

8 Acquisitions and disposals

a) Summary of consideration paid and payable in respect of acquisitions

	Beco Limited £m	Kier Developments Limited £m	North Tyneside Council £m	Pure Recycling £m	May Gurney £m	Total £m
Discounted balance payments at 30 June 2013	0.1	25.7	1.9	–	–	27.7
Acquisition of May Gurney	–	–	–	–	38.5	38.5
Paid during the year to 30 June 2014	(0.1)	(26.0)	(1.0)	–	(38.5)	(65.6)
Unwinding of discount	–	0.3	0.1	–	-	0.4
Balance payable at 30 June 2014	-	-	**1.0**	–	–	**1.0**

b) Acquisition of May Gurney

The Group purchased the entire share capital of May Gurney on 8 July 2013 for a total consideration of £222.3m. May Gurney provides support services and delivers a wide range of essential front-line services to the public and regulated sectors. The acquisition represented an excellent opportunity to accelerate Kier's strategy for its Services division. The Kier Board believes the acquisition is highly complementary and will provide an increased breadth of services, skills, geographic coverage and operating efficiencies, representing an attractive proposition for its clients (and those of the enlarged Group) and enhanced value for the shareholder base of the enlarged Group.

The fair value of the intangible assets acquired represents the fair value of customer contracts at the date of acquisition. During the second half of the year we continued to review the fair value of the May Gurney net assets acquired and, subsequent to the issue of the interim results as at 31 December 2013, further adjustments were made, principally to provisions for contract losses, current tax asset and deferred tax liabilities. The fair value of the assets acquired was estimated at 31 December 2013 at £30.4m and the amendments to 30 June 2014, which will not change, reduce the fair value of the net assets acquired to £27.6m.

The goodwill arising on acquisition is attributable to the knowledge and expertise of the assembled workforce and the operating synergies that arise from the Group's strengthened market position. None of the goodwill recognised is expected to be deductible for tax purposes.

£8.1m (2013: £1.8m) of acquisition costs were incurred in the year and expensed to the income statement as an exceptional item.

	Fair value to the Group £m
Intangible assets	106.7
Property, plant and equipment	87.1
Inventories	64.0
Trade receivables	76.2
Trade and other payables	(152.2)
Overdraft	(16.8)
Borrowings	(20.0)
Taxation	9.4
Deferred tax liabilities	(11.4)
Retirement benefit obligations	3.7
Obligations under finance leases	(62.6)
Provisions	(56.5)
	27.6
Goodwill	194.7
Total assets acquired	**222.3**
Satisfied by:	
Shares	183.8
Cash*	38.5
Total consideration	**222.3**

*cash consideration includes a dividend of £3.8m.

Notes to the consolidated financial statements continued

8 Acquisitions and disposals continued

c) Deemed disposal of investment in joint venture and subsequent acquisition as a subsidiary of Justice Support Services (Norfolk and Suffolk) Holdings Limited

On 4 April 2014 the Group acquired 100% of the share capital of Justice Support Services (Norfolk and Suffolk) Holdings Limited (JSS). JSS had previously been held as a joint venture of which the Group had a 42.5% holding. On 17 February 2014 the Group increased its holding in JSS from 42.5% to 57.5% at a cost of £0.7m. JSS continued to be classified as a joint venture as joint control remained in place. The remaining 42.5% of the share capital of JSS was acquired from the joint venture partner on 4 April 2014 for £4.0m. This transaction has been treated as a deemed disposal of a joint venture (see below) and subsequent acquisition of a subsidiary. A gain of £1.1m arose on the deemed disposal of the joint venture.

The gain on deemed disposal is calculated as follows:

	£m
Deemed consideration	5.4
Cost of investment	(4.3)
Gain on deemed disposal	**1.1**

Provisional fair values of assets and liabilities at acquisition:

	Provisional carrying value at acquisition £m
Non-current assets	65.6
Current assets	2.2
Cash at bank	4.8
Current liabilities	(5.1)
Borrowings	(57.7)
	9.8
Negative goodwill	(0.4)
Total assets acquired	**9.4**
Satisfied by:	
Cash	4.0
Deemed consideration	5.4
Total consideration	**9.4**

Subsequent to the acquisition on 4 April 2014, but before 30 June, the Group decided to dispose of JSS within 12 months of the balance sheet date and negotiations are ongoing with a number of interested parties. As a result at the balance sheet date JSS is held as an asset held for resale.

d) Disposal of investments in joint ventures

During the year the Group, through its subsidiary Kier Project Investment Limited, sold its investments in the following joint ventures:
Justice Support Services (North Kent) Holdings Limited and Kent PFI Holdings Company 1 Limited.
The disposal proceeds can be reconciled to the profit on disposal as follows:

	2014 £m	2013 £m
Sales proceeds	17.3	13.0
Book value of net assets and loans of joint ventures	(9.4)	(3.1)
Intangible assets sold	(1.8)	-
Sale costs	-	(0.1)
Profit on disposal	**6.1**	**9.8**

Notes to the consolidated financial statements continued

8 Acquisitions and disposals continued

e) Sale of plant business

On 5 August 2013, the Group through its subsidiary Kier Plant Limited, sold the remainder of its plant business (tower cranes) for a consideration of £5.2m. The total impact of this disposal is a loss of £2.6m which was recorded in the income statement in the year to June 2013 as an exceptional item. The disposal proceeds can be reconciled to the loss as follows:

	2014 £m	2013 £m
Maximum aggregate consideration	5.2	14.5
Less provision for disposal costs	(1.0)	(1.5)
Fair value less provision for disposal costs	4.2	13.0
Carrying value of assets sold	(6.8)	(16.2)
Loss	(2.6)	(3.2)

The carrying value of the assets sold was originally held in property, plant and equipment.
The loss on disposal in 2013 was recorded in the income statement in the year to 30 June 2012 as an exceptional item.

9 Cash, cash equivalents and borrowings

	2014 £m	2013 £m
Bank balances and cash in hand	112.4	152.3
Borrowings due within 1 year	(39.8)	–
Borrowings due after 1 year	(195.4)	(92.5)
Net (borrowing)/funds	(122.8)	59.8

10. Change of accounting policy

The amendment to IAS 19 has changed the accounting for defined benefit schemes and termination benefits. The interest cost and expected return on scheme assets used in the previous version of IAS 19 have been replaced with a net interest cost which is calculated by applying a discount rate to the net defined benefit obligation. The amendment has a corresponding impact on the actuarial gains and losses recognised in the statement of comprehensive income, with no overall change to the net retirement benefit liability in the balance sheet.

The Group adopted the amendment to IAS 19 on 1 July 2013 and has restated prior year information, which had the following impact on reported profit, earnings per share and comprehensive income in 2013:

Statement of comprehensive income	Actuarial losses £m	Deferred tax £m	2013 Total £m
As previously reported	(24.2)	2.9	(21.3)
Impact of amendment to IAS19	17.1	(4.1)	13.0
Restated	(7.1)	(1.2)	(8.3)

Income statement	Profit before tax £m	Taxation £m	2013 Profit after tax £m
As previously reported	43.0	(4.4)	38.6
Impact of amendment to IAS19			
Operating profit	(14.2)	3.4	(10.8)
Finance costs	(2.9)	0.7	(2.2)
	(17.1)	4.1	(13.0)
Restated	25.9	(0.3)	25.6

Notes to the consolidated financial statements continued

10. Change of accounting policy continued

Earnings per share (pence)	Basic	Diluted	Adjusted
As previously reported	95.8	94.8	136.2
Impact of amendment to IAS19	(33.2)	(32.8)	(33.1)
Impact of representation of acquisition discount unwind*	-	-	2.5
Restated	**62.6**	**62.0**	**105.6**

*Unwind of discount in respect of deferred consideration.

11 Statutory accounts

The information set out above does not constitute statutory accounts for the years ended 30 June 2014 or 2013 but is derived from those accounts.

Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered following the Company's annual general meeting and will be made available on the Company's website, www.kier.co.uk. The accounts have been prepared on a going concern basis which the directors consider appropriate. The auditors have reported on the 2013 and 2014 accounts, their reports were unqualified and did not contain statements under section 498 (1) or (2) of the Companies Act 2006.