Creating platforms for growth

Strategic report

Governance

Financial statements

Essential read

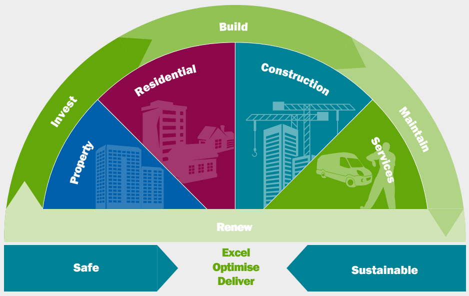
Chief Executive's strategic review

Haydn Mursell took over as chief executive of Kier on 1 July 2014. Read about his priorities for the future and how the Group's breadth of capability provides a strong platform for growth.

See page 10 for more

How we create value

In the strategic review learn about the Group's vision and business model and how its integrated offering will strengthen the Group's relationships with its clients.



See page 14 for more

Property

The Property division provides property development and structured project finance.

See page 34 for more

Residential

The Residential division, known as Kier Living, brings together all of Kier's house building operations from contracting and mixed tenure housing to private sector housing.

See page 34 for more

Construction

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

See page 38 for more

Services

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

See page 42 for more

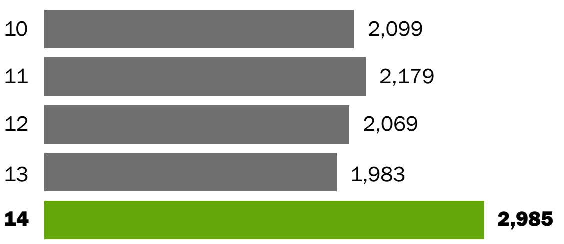
Kier is a leading property, residential, construction and services group which invests in, builds, maintains and renews the places where we work, live and play. We operate across a range of sectors including defence, education, housing, industrials, power, transport and utilities.

The Group employs over 15,000 people in its operations in the UK, the Caribbean, the Middle East and Hong Kong.

Financial highlights

Revenue (£m)

£2,985m +51%



Underlying profit before tax* (£m)

£73.1m +54%

Underlying earnings per share* (pence)

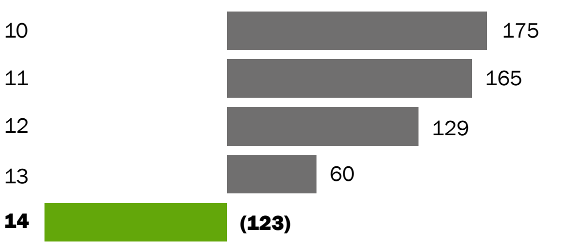
107.7p +2%

Dividend per share (pence)

72.0p +6%

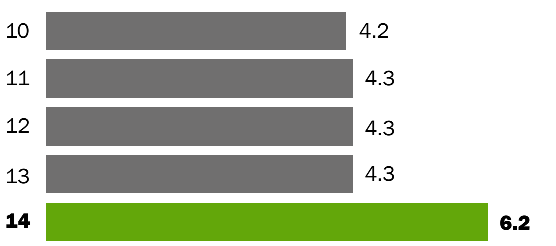
Net cash/(debt) balances (£m)

£(123)m



Order book (£bn)

£6.2bn +47%



† Restated on adoption of the amendment to IAS 19 (see note 31 page 132).

* 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 4 page 106).

Kier at a glance

Across our four divisions we provide a range of capabilities to meet the broad requirements of our customers.

Increasingly customers are drawing on expertise from across the Group to help them solve the problems they face and maximise their assets.

Property

The Property division encompasses property development and structured project finance.

See page 34 for more information

Residential

From 1 July 2014, the new Residential division, known as Kier Living, was created. It brings together all Kier's house building operations from contracting and mixed tenure housing partnerships to private house building.

Its clients include local authorities, housing associations and the private rented sector.

See page 34 for more information

Construction

The Construction division encompasses our UK regional, major projects, infrastructure and international businesses.

Key strengths include market leading positions, geographic coverage, flexible project size, strength across many market sectors and positioning on strategic frameworks.

See page 38 for more information

Services

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

Key strengths include strong client relationships, a broad range of service offerings and a record of partnering with clients.

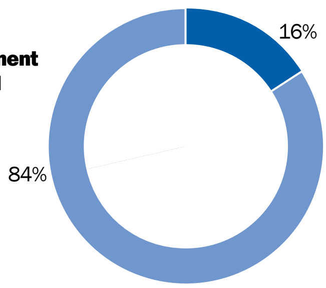
See page 42 for more information

Operating profit[1]
£16.0m
(2013: £16.2m)

Average capital
£(61)m
(2013: £(57)m)

Number of employees
63
(2013: 57)

Revenue
Property development
PFI and structured finance

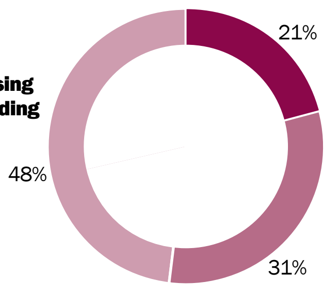


Operating profit[1]
£5.0m
(2013: £4.3m)

Average capital
£(233)m
(2013: £(247)m)

Number of employees
348
(2013: 293)

Revenue
Contracting
Mixed tenure housing
Private house building



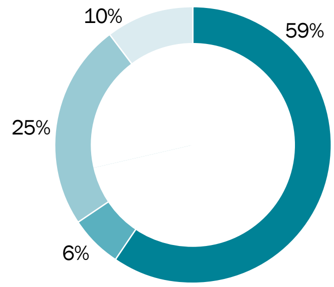
Operating profit[1]
£33.6m
(2013: £30.4m)

Operating margin[1]
2.1%
(2013: 2.3%)

Number of employees
3,720
(2013: 3,911)

Order book
£2.5bn
(2013: £2.3bn)

Revenue
Building
Major projects
Infrastructure
International



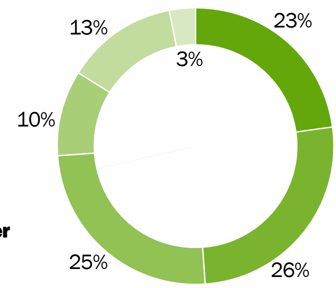
Operating profit[1]
£53.3m
(2013: £19.3m)

Operating margin[1]
4.8%
(2013: 4.4%)

Number of employees
10,813
(2013: 5,595)

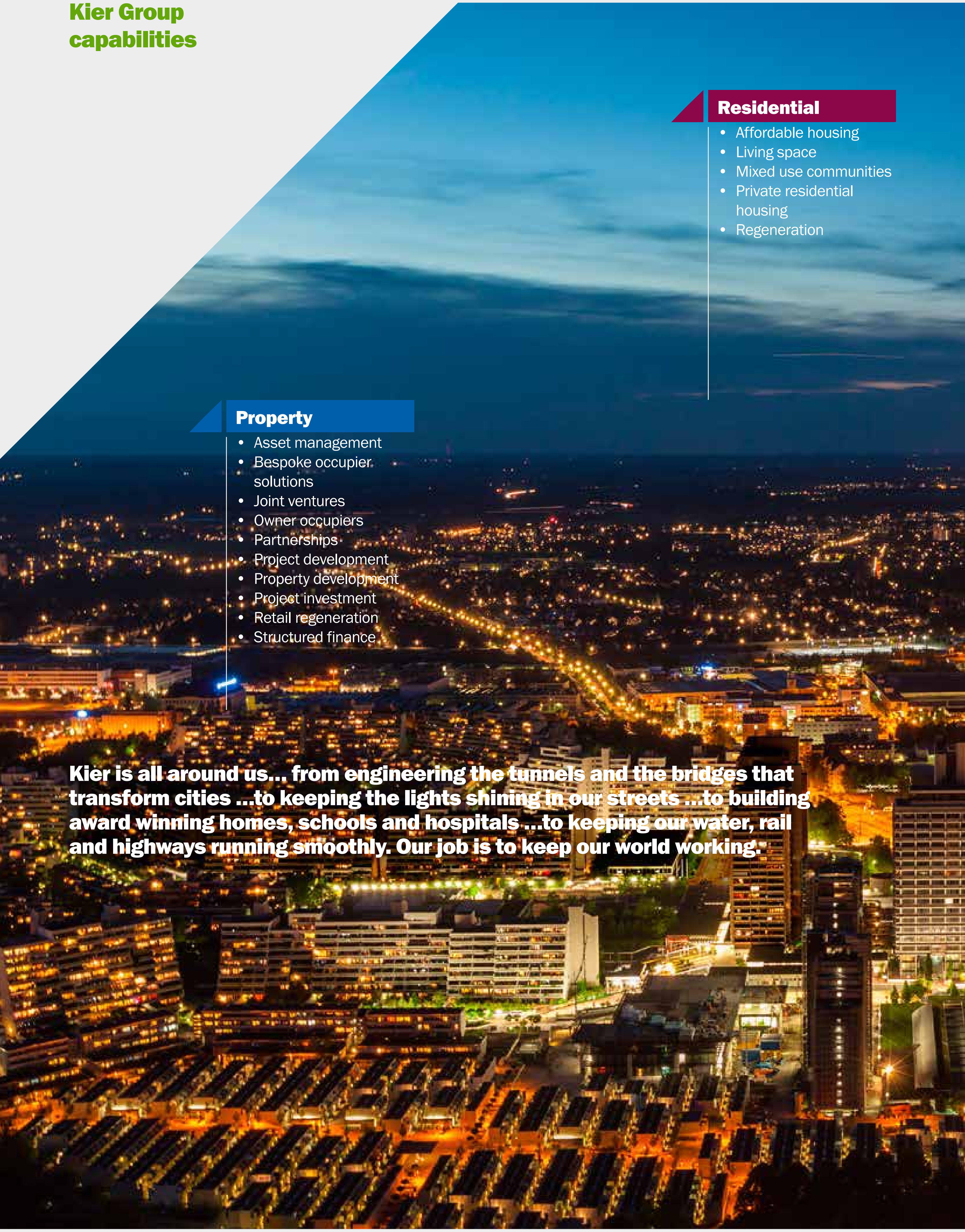
Order book
£3.7bn
(2013: £2.0bn)

Revenue
Utilities
Housing maintenance
Highways maintenance
FM
Environmental
Fleet & passenger services



[1] Underlying operating profits and margins are stated before exceptional items and amortisation of intangible assets relating to contract rights. Reported operating profit was as follows: Property and Residential £18.5m (2013: £20.5m), Construction £25.4m (2013: £21.4m), Services £32.6m (2013: £9.3m).

Kier Group capabilities



Residential

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

Property

- Asset management
- Bespoke occupier solutions
- Joint ventures
- Owner occupiers
- Partnerships
- Project development
- Property development
- Project investment
- Retail regeneration
- Structured finance

Kier is all around us... from engineering the tunnels and the bridges that transform cities ...to keeping the lights shining in our streets ...to building award winning homes, schools and hospitals ...to keeping our water, rail and highways running smoothly. Our job is to keep our world working.

We have a broad range of capabilities. We help our customers maximise the value they derive from their assets by negotiating finance and planning permissions, constructing major buildings and infrastructure, providing facilities management and environmental services and even keeping water, rail and highways running smoothly.

Construction

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

Services

- Asset management
- Energy management services
- Environmental services
- Facilities management
- Fleet & passenger services
- Highway services
- Housing maintenance
- Utilities services
- Waterway services

Chairman's statement

A robust business

2014 was a successful year for Kier. I am pleased to report a good set of results for the Group which build on the positive performance of recent years.

The results

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.

Before discussing the results, I want to explain some changes to the form of this report. Regulatory requirements have become ever more onerous and you will see that this year's report is written in a different style to those which we have produced in previous years. As a Board, we have recognised the requirement for the information contained in this annual report to be fair, balanced and understandable and to contain the information necessary for shareholders to assess the Group's performance, business model and strategy. We have therefore focused on describing our refreshed strategy for growth – 'Vision 2020' – which has also provided us with an opportunity to demonstrate the new business model so as to set out, in a transparent way, how the Group operates. I hope you find the additional information helpful.

In the year to 30 June 2014, Group profit before tax* was £73.1m (2013: £47.6m)† with full year underlying earnings per share* of 107.7p (2013: 105.6p)†, in line with expectations. The Group continued to convert profit to cash and manage hard its working capital. Average Group month-end net debt was £140m (2013: £4m), a good result given the continuing pressure on working capital and the acquisition of May Gurney.

Dividend

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.

Strategy

Kier is all around us – we invest in, build, maintain and renew places where we all work, live and play. Following the appointment of the new chief executive, the Board has re-defined the strategy of the Group. Our refreshed focus is to develop the business significantly over the next five years whilst delivering a safe, robust, sustainable and optimised performance from efficient business processes. The following strategic review sets out how we aim to deliver on our future plan.

† Restated on adoption of the amendment to IAS 19 (see note 31 page 132).

* 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 4 page 106).

Dividend per share
72.0p **+6%**
(2013: 68.0p)

Earnings per share*
107.7p **+2%**
(2013: 105.6p)†

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.

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.

Our people
Kier's success lies in its ability to recruit, retain and develop the skills of its employees. Against a climate of increasing market demand, there are additional pressures to ensure we have the right teams in place. We are ever mindful of our responsibility to invest in our teams, ensuring we give them the opportunity to grow their skills. We aim to excel and create an engaging and stimulating environment for our people. I am pleased that at Kier we have an experienced team with ambition for the Group. I would like to take this opportunity on behalf of the Board to thank all our employees for their commitment, professionalism and sheer hard work during the year.

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 the Construction and Services businesses come into their own at the back of the cycle.

Governance
For details of key governance committees please see:

Nomination Committee
See page 60 for more information

Safety, Health and Environment Committee
See page 62 for more information

Risk Management and Audit Committee
See page 63 for more information

Directors' Remuneration Report
See page 67 for more information

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.

Phil White
Chairman

Our markets

As most of Kier's markets return to growth and with an increased range of capabilities, we are well placed to take advantage of increasing opportunities in the UK and internationally.

The Group seeks to achieve top three sector leadership positions in its chosen markets. This will be achieved by expanding our existing capabilities into adjacent market sectors and developing or acquiring new complementary capabilities in existing markets.

Property

With our focused non speculative development offering, our equity investment capability and the Group's integrated offering, Kier has a major opportunity to increase investment in and penetration of property markets.

Market highlights

- 2013 total commercial property investment of £53bn (Source: Savills), up 57% on 2012.
- More than 50% of investment is in Greater London, with regional markets recovering to account for 45% of investment in 2013, up 41% on 2012.
- Development of new commercial property totalled 50m sqft, valued at £11bn (Source: British Property Federation).

Market commentary

- Occupier demand is improving.
- Weight of money is driving valuations higher.
- Prospects look stable with potential for selective growth.

Residential

With our newly configured Residential division and our primary focus on innovative products in the mixed tenure marketplace, we are well placed to benefit from growth in the house building market.

Market highlights

- Total UK output in 2013 of 123,000 new homes.
- Forecast growth in output of greater than 10% pa to c167,000 new homes by 2018 (Source: Savills).
- House price inflation expected to stabilise around 3% in the medium-term.

Market commentary

- Output is forecast to remain significantly below government targets and projected household growth.
- Government initiatives such as Help-to-Buy, New Homes Bonus and Build-to-Rent expected to continue in the medium-term.
- Affordability of housing remains a key issue.
- Building of new homes for housing associations and local authorities increasing from 23% of output in 2013 to 26% by 2018 (Source: Savills).

Projected household growth, additions/starts & house price inflation

Sources: Experian, Knight Frank, management estimates

Construction

We have a leading position in UK regional building and the health and education construction markets with a growing presence in infrastructure and defence. Internationally, we selectively pursue opportunities to increase our geographic footprint and extend into new sectors.

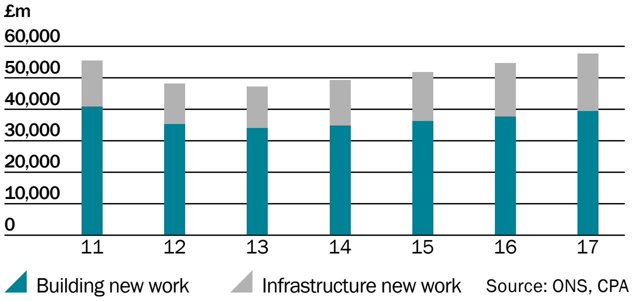
UK – Market highlights

- 2013 new construction work (excluding residential) was valued at £47bn (Source: ONS).
- Forecast growth of 5% pa to 2017 (Source: CPA).
- Building output valued at £34bn in 2013; forecast to grow at 3% pa to 2017 (Source: CPA).
- Infrastructure output valued at £13bn in 2013; forecast to grow at 5% pa to 2017 (Source: CPA).

UK – Market commentary

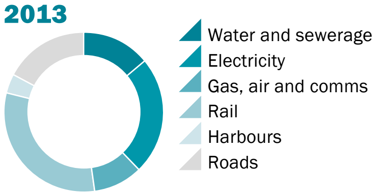
- Building market growth will be driven by private sector recovery, notably in the office, commercial, industrial and retail markets.
- Infrastructure market growth anticipated to be c10% in 2014 driven by rail and road investment (Source: Experian, CPA).
- Medium-term growth in infrastructure driven by increased investment in energy.
- Kier's addressable UK construction market in 2013 was estimated at £32bn of the total of £47bn.
- Inflationary cost pressures will persist as the market recovers.

UK Construction – new work (2012 prices)



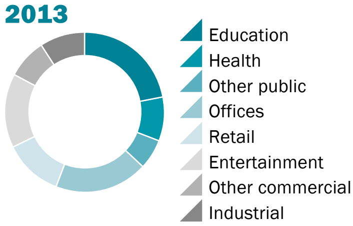
Source: ONS, CPA

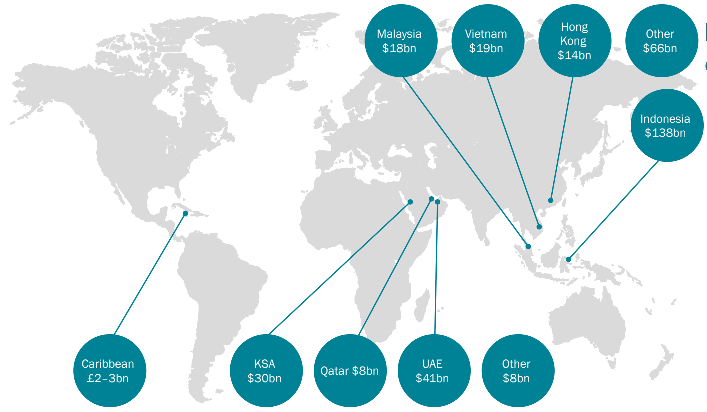
New infrastructure output by sector 2013



Sources: ONS, CPA

Non-residential new building output by sector 2013





International – Market highlights and commentary

- Total construction expenditure by the Gulf Co-operation Council states (GCC) was cUS$90bn in 2013 (Source: Deloitte).
- Infrastructure investment (transport and energy) are the largest segments in the UAE and Saudi Arabian markets.
- UAE and Saudi Arabia account for c80% of the GCC construction output.
- Far East Asia construction markets were valued at US$300bn in 2013 (Source: Aecom).
- Forecast growth in Far East Asia is c5% pa to 2018 (Source: Aecom).

Sources: Aecom, Deloitte, management estimates

Services

We play a major role in housing maintenance, local authority highways and water utilities, with opportunity to expand in our facilities management and adjacent markets.

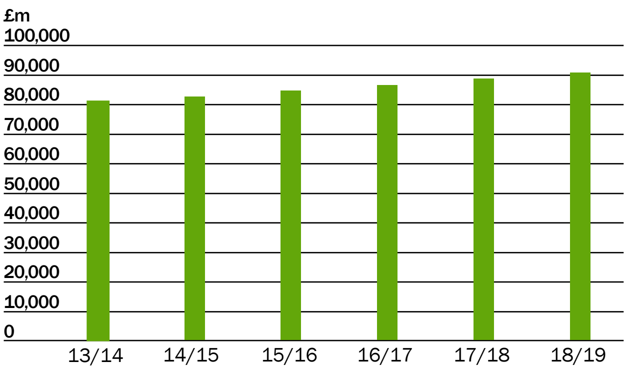
Market highlights

- Total market size was £81bn pa (Source: Credo, BSA, ONS).
- Forecast support services growth of 2–4% pa.

Market commentary

- The facilities management market is our largest addressable segment at £44bn pa with c30% of expenditure in the public sector, it presents a significant growth opportunity in both public and private sectors.
- Utilities markets are valued at £18bn with forecast growth of 3–5% pa to 2018.
- Outsourced expenditure on social and private rented housing maintenance is estimated to be £5.1bn pa; local authorities and housing associations account for c90%.
- The outsourced highways maintenance market is estimated to be worth c£2.4bn.
- 'Austerity' will continue to place pressure on public sector budgets, driving outsourcing opportunities and innovation.

UK Services – Market size and growth



Sources: BSA Oxford Economics, Credo, ONS

New chief executive, Haydn Mursell, talks about his strategic vision for Kier designed to create sustainable value for clients and shareholders.

Q You've been chief executive of Kier for only a short time. What have been your main priorities to date?

After four years as Kier's finance director, I feel privileged to take over as chief executive, particularly at a time when markets appear to be recovering after a number of years of recession. I would like to thank my predecessor, Paul Sheffield, who steered Kier during these challenging years whilst maintaining excellent client relationships. We are now positioned to exploit the opportunities which are available to us across all our target markets.

My key priority since taking up the post has been to meet as many of our clients as possible and learn from their experience of working with us. I have also spent time with our people, listening to their feedback and looking at how we continue to make Kier a stimulating and enjoyable place to work. We want and need a motivated, ambitious team to deliver our strategic goals, Vision 2020.

Revenue

£2,985m **+51%**

(2013: £1,983m)

Underlying operating profit*

£88.0m **+59%**

(2013: £55.5m)†

Combined Construction and Services order book

£6.2bn **+47%**

(2013: £4.3bn)

I would like to thank everyone in Kier for taking on all the challenges brought by the significant changes that have taken place in the business during this year, as a result of the May Gurney acquisition, and the drive to improve the efficiency and cost base of the Group.

Over the next few months, my focus will be on communicating Vision 2020 throughout the Group. I shall highlight the wide spectrum of capabilities that we can now offer to our clients, and the opportunity we have to accelerate growth in our core markets.

Q Safety is a big aspect of your operations, where does this fit into your priorities?

Operating safely is a must. Every accident is preventable. It is part of our future vision to have a zero Accident Incidence Rate (AIR) right across Kier. We are already achieving this across some of our operations. We have significantly reduced the rate of accidents within the May Gurney business since we acquired it in 2013. However, despite this improving trend, there were two fatalities during the year in our joint venture operations, one in Hong Kong and one on the Crossrail project. Both accidents are currently subject to further investigations. They are a stark reminder that we can always do better.

Q Can you summarise the results for 2013/14, and tell us how good a platform they provide for the next year and beyond?

Last year saw significant progress for the business; a further expansion of our regional building operation, new opportunities in infrastructure as greater investment is made by the UK Government, expansion of our international footprint as well as the successful integration of May Gurney. We also improved the efficiency of the business through our restructuring and cost control programme.

Against this background, we delivered another good set of results in line with our expectations. We achieved underlying profit before tax* of £73.1m and a net debt position of £123m even after both the acquisition of May Gurney and the continued investment in the business to drive future growth.

Revenue in our Construction division grew significantly to around £1.6bn, reflecting a market recovery and strong growth in our infrastructure and international businesses. The Construction division also produced a 2.1% margin*, which was better than the market average. Looking ahead, we have secured more than 90% of revenues for the coming year.

† Restated on adoption of the amendment to IAS 19 (see note 31 page 132).
* 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 4 page 106).

Our Services division delivered revenues of £1.1bn at a robust margin* of 4.8%, reflecting the stronger and more diverse mix of services in our portfolio and the £5m of cost synergies that we anticipated at the time of the May Gurney acquisition. We continue to work at the loss-making environmental contracts and are making progress in our discussions with those clients. Next year looks promising with more than 90% of revenues already secured following some excellent recent contract wins in the utilities sector.

Our Property division, including the residential activities which will be reported separately in next year's report and accounts, delivered operating profit* of £21.0m, with property developments producing a return on capital of 15%. This was another good performance by a division that has a development pipeline of more than £1.5bn. There are many more opportunities to exploit now as we have allocated more capital to this business.

A highlight of the year was the growth achieved in our infrastructure business. Projects such as Crossrail and Mersey Gateway bring our skills to the fore as we play an important role in improving the UK's infrastructure. Internationally, we are increasing our geographic footprint based on our long 50-year record of operating overseas. The positive market dynamics in these areas, and our established skills, are providing further exciting opportunities for future growth.

Vision 2020 is an agenda for growth. The strong operating performance of all our divisions gives us confidence to make the investments that will provide the Group with a platform to double in size over the next five or six years. This will require investment in back-office systems and front-of-house IT for the Services division, to make sure we have the best technology and back-office systems.

However, future investment is not the only way to reflect stability and growth. We have considerable strength and depth in our existing operations, a very high level of risk awareness and an excellent portfolio of businesses that meet a wide range of client needs in growing markets. That's why I am positive about our future.

Q How has the integration of May Gurney progressed and what value is it bringing to the Group?

The acquisition of May Gurney was undoubtedly the big story of 2013, and its successful integration into the wider business was the story of 2014. This was a significant development for the Group and involved challenges for our integration and IT teams in particular. I am pleased to report

> **"We undertake a large number of projects and risk management is a key factor of our bidding approval process."**

that we dealt with the integration well and we have delivered on what we set out to achieve. Progress to date has been encouraging, albeit we must resolve the loss-making environmental contracts for Bristol and Cheshire West & Chester local authorities in relation to which we have already made and announced a fair value provision. We have worked hard to improve the performance of every one of these contracts, through increased commercial rigour in the operations and greater engagement with the clients.

Most importantly, the integration has given us a greater breadth of skills to offer clients. It has broadened and strengthened the culture of client partnership in areas such as highways and utilities. It has also given us a greater scale, making it easier for us to leverage cost savings. We are both bigger and better together, and we now have relationships with more than 60 of the UK's 350 local authorities. This is a significant market share, but one that still leaves plenty of room for further expansion. The enlarged group, with its broader capabilities, is proving to be a catalyst regarding additional and new requirements with existing and new clients.

For example, the Services division now has greater interaction with the Construction team and clients can now procure both small opex maintenance work as well as larger capex construction activities, broadening and deepening the Group's relationships with its clients.

The integration of our businesses is already delivering opportunities. For example, our commercial property team has a partnership with Northampton Borough Council, and our Services division has another with Northamptonshire County Council. The Borough Council needs to update and upgrade care facilities, around 3,000 units. It is clear from discussions how much a structured, end-to-end cross-divisional approach by Kier could help them. We have the ability to develop a structured financial package, build homes, and maintain and manage them too.

Another example of the power of integration is in Surrey, where our Property division has a 28-year PFI arrangement with Woking Borough Council. We are now building 373 houses on regenerated land belonging to the Council, 149 of which will be for private sale to subsidise the 224 built for the Council. We are also working with Surrey County Council on a five-year £100m asset investment programme to address the root causes of frequent and costly highways maintenance, reducing their overall maintenance budget over the longer term.

Q Why have you chosen now to focus on residential with the formation of Kier Living?

Kier Living seeks to address the imbalance between house building supply and demand.

We are giving greater focus to the residential market by bringing together three existing areas of activity – specialist contracting, affordable mixed tenure housing partnerships and private house building on our own land, enabling the Group to scale up its house building activities. Our approach means we can grow while better managing risk, taking production from our current 1,500 units pa to around 4,000 by 2020. As we continue to trade our existing land bank, no new capital is required. We will re-invest the capital released as the land bank reduces into mixed tenure which is less capital intensive and presents much more manageable risks than speculative house building.

Q Can you explain the Kier business model and how it will deliver your Vision 2020 strategy?

We have a broad set of capabilities and have a leading regional presence across the UK with operations in three international territories. We complement these with a resilient business model which comprises a value chain of invest, build, maintain and renew, delivered through our Property, Residential, Construction and Services divisions.

Significantly, as markets ebb and flow, the breadth of our business gives us an important hedge against the cyclical nature of the markets in which we operate, with Property and Residential at the front, while Construction and Services are further back in the cycle.

Vision 2020

Safety **Zero** harm	Profit growth **>10%** CAGR
Shareholder return **Progressive dividend**	Customers **+90%** Customer satisfaction
Property **>15%** ROCE	Residential **>15%** ROCE
Construction **>2.5%** EBITA	Services **>5%** EBITA

We can offer a broad, end-to-end range of property and infrastructure-focused services. Our clients can maximise the value they derive from their assets by working with us: by negotiating finance and planning permissions, constructing major buildings and infrastructure, to providing facilities management and environmental services. We even keep water, rail and highways running smoothly. We are investing in better technology and back-office systems to enhance the effectiveness and distinctive value of our integrated offer.

Our business model provides the basis for future growth in revenues, profits and cash through the delivery of our Vision 2020 strategy. We aim for double-digit compound annual growth in operating profit through to 2020, becoming a world-class customer-focused company and aiming to be a top three player in our chosen markets. We aim to achieve top quartile performance and efficiency across our business.

Such success will be reflected in the continuing improvement of our total shareholder returns.

Q What are the risks in achieving Vision 2020?

Any strategy contains a degree of 'stretch' or ambition. In striving to achieve Vision 2020, we will not reduce our focus on robust operational, commercial and financial discipline. There are a number of factors which are outside our control – for example, the economic climate, budgetary constraints of local authorities and geo-political upheaval. Identifying, recruiting and developing the best available people in an ever-changing labour market and a growing skills gap, will also present a challenge.

Q What are the main market opportunities open to the Group?

There are so many varied and exciting opportunities. For example, Construction is growing faster than the market average; our Construction division generated around £1.6bn in revenues in the last year. This is a market that's growing by up to 5% a year and will be worth more than £50bn in the UK in the next four to five years. I am confident that the quality of our regional building business, and our entry into sectors including industrials, defence and aviation, means that we can expect our share to grow faster than the market average.

Our infrastructure business is also growing faster than the market and likely to continue to benefit from investment in the UK's infrastructure. Revenues have increased from £150m to £400m in recent years and we believe it will continue to grow due to cross-party support for investment in roads, rail, power and water. We look forward to building on recent successes such as the start of Phase 2 at Hinkley Point C and our work on Crossrail.

The level of international opportunity is also encouraging. I believe this part of our business can grow to around 10% of Group revenues by 2020, which will mean revenues growing to £500m. There are considerable risks in achieving this objective, principally in the areas of safety, ethics and the management of risk. We recognise that strict and disciplined operational management is key. We may also look to extend our footprint beyond Hong Kong, the Middle East and the Caribbean into a fourth territory.

Turning to our Services division, we expect to grow ahead of the market average; we currently have a £1bn share of a UK market worth around £80bn. So while we have a strong foothold, there is scope to grow, by using our breadth of skills to win new clients and develop relationships with existing ones. Again, I expect to see the division grow ahead of the market average of 2–4% pa particularly in private sector housing maintenance, highways maintenance, utilities and facilities management.

Finally, in our Property division we will continue our non speculative approach in the developments business while doubling its current capital limit towards £200m by 2020. That will enable us to target larger opportunities. Further, by consolidating all the Company's residential experience into one division, Kier Living, we have created a mixed tenure housing-focused building business.

Q What competitive pressures do you face, and what are the key challenges ahead?

Competition for the best people will intensify as markets recover, so we need to offer attractive remuneration, training and development and fulfilling career paths. This is fundamental to achieving our goals. We need the right people in the right jobs to achieve our objectives.

We are also conscious of labour, commodity and supplier inflation and its effect on profits. However, we undertake a large number of projects with risk management playing a key part in our bidding approval process. Our focus continues to be on profits, cash and risk management, not just revenue.

The other big challenge is how to manage growth and we must ensure we have the systems and processes in place to manage the stresses, strains and risks associated with rapid expansion.

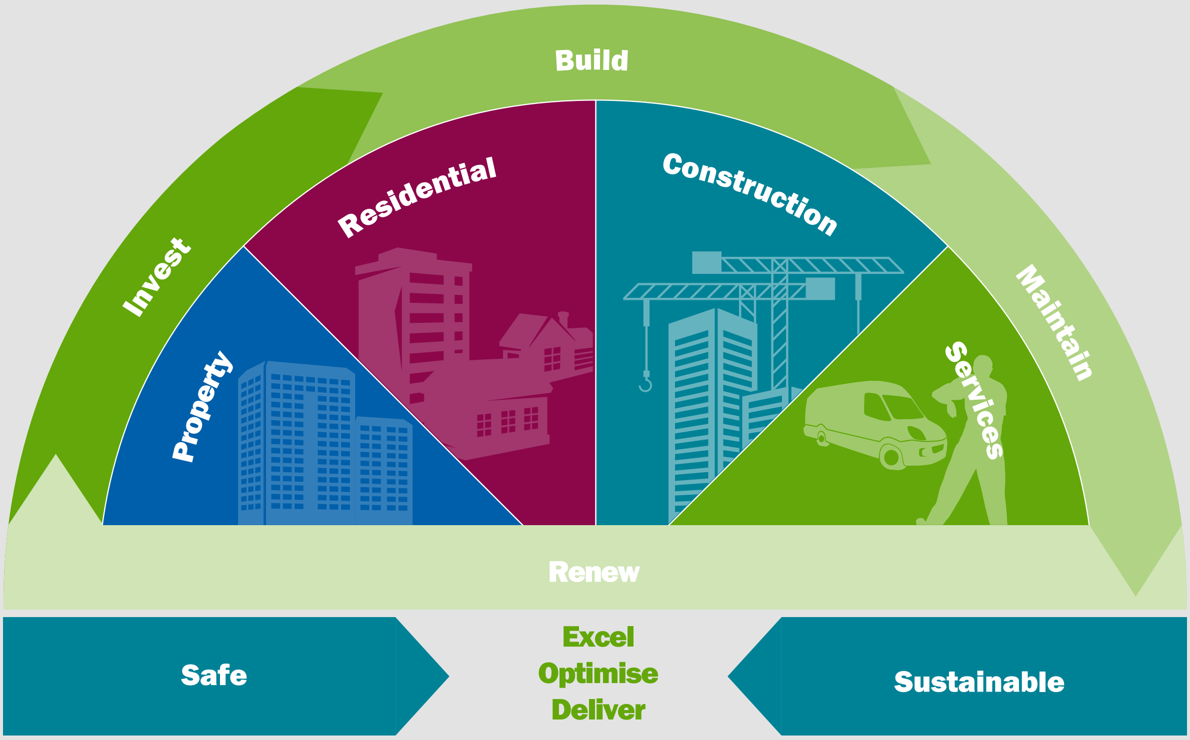
Q Where do you see Kier in 2020?

When considering the future of Kier, it's important that we look at where the business is today. We have a strong balance sheet, a clear strategy, a robust business model, enduring client relationships and, above all, the people to exploit opportunities for growth in the markets where we operate. Our emphasis on strict risk management allows us to deliver successful projects. We remain a company with the customer at the heart and we have people who have shown they can respond to change and are ambitious for further growth.

So, within five years' time, I see Kier as a company with clients in the public and private sectors, both in the UK and internationally, having doubled in size through offering greater breadth of service. At the same time we will deliver consistently strong margins and progressive dividend payouts and total shareholder returns.

Our business model

We have a resilient business model which delivers sustainable value for all of our stakeholders by providing an integrated offering to invest in, build, maintain and renew over the life of an asset.



On 1 July 2014, a fourth division, Kier Residential, was created which brings all of Kier's house building activities together*.

Key performance indicators

We monitor our performance against a range of financial and non-financial key performance indicators (KPIs) that measure progress in delivering our strategy and which we believe are important to our longer-term success.

See page 26 for more information

Resources and relationships

As we provide a greater breadth of services to more customers across a wider geography, we maintain our emphasis on our responsibility to deliver social, environmental and economic value.

See page 28 for more information

* In the financial statements and in the segmental note (note 2 page 104), three operating divisions have been disclosed to 30 June 2014. For the year ending 30 June 2015, there will be four operating divisions disclosed in the segmental note.

	How we create value
Sector leadership • Aim to be a top three player in key markets • Further develop long-term relationships • Sustainable approach	We retained and improved our leading position in construction markets, extending our reach in education through the Priority Schools Building Programme framework and in health through the ProCure 21+ framework. We improved our coverage of the defence sector where we are now working for the Ministry of Defence on a three-year £400m national framework capital works contract and the £121m first phase of the Defence Technical Training Change Programme at RAF Lyneham. We also expanded our services offering through the May Gurney acquisition, strengthening our position as a top three player with local authorities, as well as increasing our share in the highways market with the mobilisation of our contract with Suffolk County Council, enhancing our profile in utilities markets with awards under the AMP6 programme and maintaining our top three position in housing maintenance with contract awards from Genesis Housing Association and Sheffield City Council.
Capability and breadth • Leverage our integrated offering • Widen our scope of services • Innovation and engineering solutions	We offer a broad set of capabilities and have a strong regional presence across the UK and in three international territories. We offer an end-to-end range of property and infrastructure-focused services designed to maximise customer value when investing in property development and regeneration, by building private and affordable homes, through constructing major buildings and infrastructure, to facilities management and environmental services.
Value added centre • Disciplined capital allocation • Continued focus on cash management • Streamlined central function	The enlarged organisation is supported by a corporate centre that provides strategic direction and implementation. It comprises value added services in the key functions of finance, IT, procurement, fleet and HR to support divisional operations, safety, customer engagement and business development. Over the next two years the Group will be investing around £30m in back-office systems whilst continuing to invest in front-of-house IT capabilities to improve the performance and efficiency of the Group.
Performance • Focused risk management • Operational excellence • Financial delivery	Whilst it is not possible to eliminate all risks, the Group has well-established risk management and internal control systems which are reviewed regularly. Our business is resilient, demonstrated by the performance through the downcycle, our winning of new business, operating performance and balance sheet strength. As we increase in size, we are refining our operating model and, at the same time, continue to streamline the Group.

Key risks to manage

We are aware of the risks within our businesses and have processes in place to manage them. As risks develop and change over time, management regularly reassess them to minimise their impact on our stakeholders.

See page 32 for more information

A culture of good governance

The 2014 financial year was another successful year for the business. The Group is continuing to adapt to significant recent change, having recently integrated May Gurney and also undertaken a significant business efficiency programme.

See page 52 for more information

Our vision and strategic priorities

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

Our strategy – double-digit growth

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

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

To achieve Vision 2020 we have identified six imperatives:

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

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

Property

- Increase capital invested towards £200m over time to invest in non speculative schemes in existing core markets, combined with entry to the care home and student accommodation equity markets.
- Continue to deliver significant integration opportunities for the Group.
- Target medium-term progression of return on capital towards 20%.

Residential

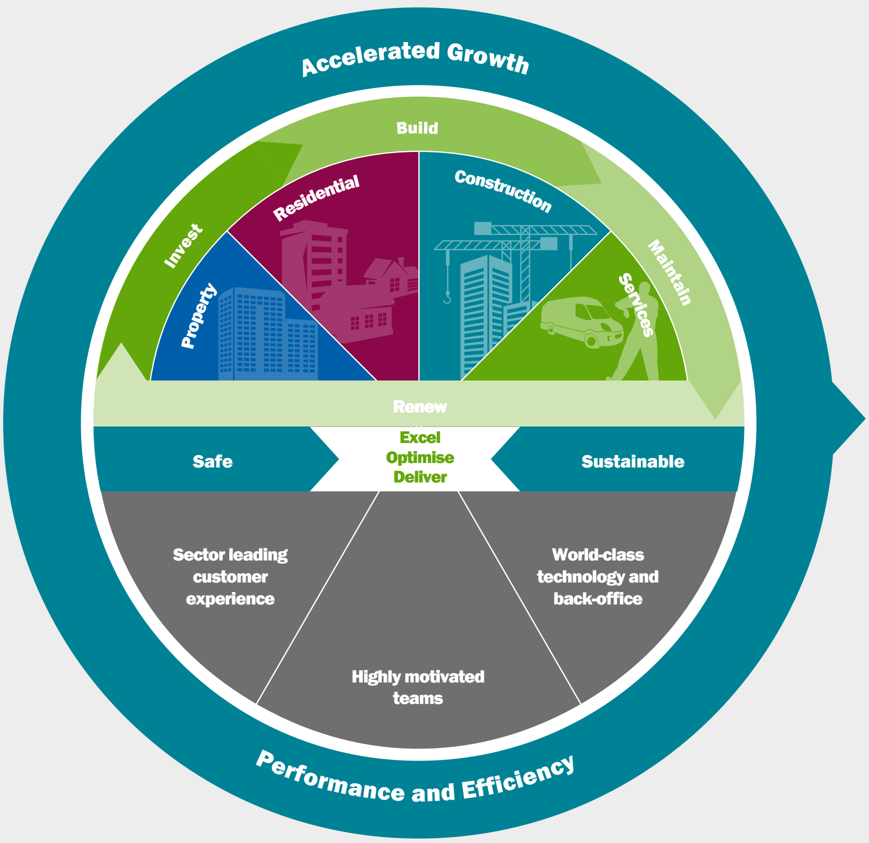
- Scale up our house building activities, primarily in the mixed tenure and social housing market segments.
- Redeploy capital from the legacy land bank to new land acquisitions and to less capital intensive, lower risk mixed tenure opportunities.
- Target a medium-term return on capital in excess of 15%.

Construction

- Deliver accelerated growth in the UK construction business through increased penetration in existing regional building markets, greater major projects coverage in areas such as high-rise construction and defence and leveraging a growing presence in major infrastructure projects in nuclear/energy, rail, highways and into new infrastructure segments.
- Continue to develop and grow our presence in the Middle East, Far East and Caribbean, exploring expansion into new territories and sectors.
- Target medium-term profit margins of 2.5%.

Services

- Grow the business and sustainable profit levels, expand into new and adjacent services markets such as telecoms, power transmission and industrial.
- Develop our private sector and central government penetration to balance our local authority sector strength.
- Target profitability in the medium term of 5%.



Vision 2020

Safety	Profit growth
Zero harm	>10% CAGR

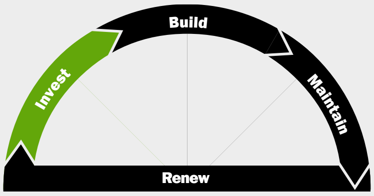
Shareholder return	Customers
Progressive dividend	+90% Customer satisfaction

Property	Residential
>15% ROCE	>15% ROCE

Construction	Services
>2.5% EBITA	>5% EBITA

Strategic priority	Achievements in 2014	Targets for 2015
Operate a safe and sustainable business	• Integration of May Gurney and achieving a 43% reduction in accident incidence rate • Realignment of safety, health and environmental (SHE) resources across the Group • Roll out of new SHE management system	• Implement a new suite of leading indicators that enable us to better predict and identify key trends and changes in our safety performance • Roll out an enhanced behavioural safety programme • Launch our new Strategy for Sustainability
Accelerate growth to be a top three player in our chosen markets	• Strong performance in securing new work in core sectors including regional building, education, health, highways and utilities • Enhanced capability across local government and regulated markets following the acquisition of May Gurney • Entry to new target sectors: defence, highways and bridge construction	• Establish a Group-wide sector business development capability • Continued penetration in existing markets • Determine development plan for new market sectors including aviation, industrial and high-rise construction • Expand internal capability to target and deliver acquisition opportunities
Achieve top quartile performance and efficiency	• Continued improvement of risk management and commercial governance • Establishment of single Group-wide business assurance system • Achievement of single ISO 9001 certification across the Group • Established a centre of excellence for transformation and performance improvement	• Attain measured performance improvements through challenge and innovation across the Group • Implement a performance framework and reporting scorecard across the Group • Continue to build a governance framework across the Group supported by continuous training
Provide sector leading customer experience	• Investment in a Group customer experience team to develop our customer service plans • Roll out of Group-wide customer relationship management system	• Launch our new 'customer promise', develop the customer journey and enhance the experience for our clients and their customers • Embed common tools and indicators for measuring customer satisfaction across Kier
Attract and retain highly motivated, high performing teams	• Appointment of talent director to improve our talent management and succession planning • Successful roll out of our leadership programmes to approximately 260 senior leaders across the Group • Completion of biennial engagement survey to include newly integrated former May Gurney employees	• Develop a framework to drive high performance • Review management development programmes • Continue to promote skills development and recruitment capability in key resource areas • Target reduced absenteeism and improved employee retention
Ensure we have investment in technology and back-office systems	• Integration and rationalisation of May Gurney IT systems and shared service centre (SSC) • Rationalisation and improvement of support functions into a shared service model • Initiation of Group-wide enterprise resource planning (ERP) programme	• Roll out phase 1 of new ERP system • Implementation of new SSC strategy and service levels • Development of front-line systems and knowledge management systems • Continued roll out of Kier 'apps' to support front-line activities

Creating new platforms for growth



An end-to-end partnership approach to project management

Invest: clients use Kier's development expertise to support every stage of a scheme, from gaining finance and planning permission through to delivering end-to-end project management.

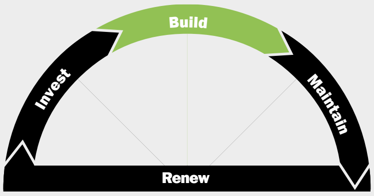
The Health Campus Partnership LLP has selected our specialist project investment business as its development and management partner for a £240m mixed use scheme that is bringing new life to a derelict 65-acre former hospital site in west Watford.

The 375,000sqft mixed use development is poised to have a tremendous positive impact on Watford and South Hertfordshire, drawing on our expertise as one of the UK's leading healthcare developers to deliver much needed new hospital facilities, up to 650 homes and business space to house up to 1,600 new jobs.

Audit House, Embankment, London

When our Property and Construction arms work together, they achieve efficiencies for the customer from shared overheads and technical solutions. Audit House is an example of one such project.

Creating new platforms for growth



Delivering our technical expertise over the long term

Build: construction is at the heart of Kier, based around outstanding technical skills that enable us to meet the most demanding quality and efficiency standards.

We have now been working for several years on the multi-phased, 67-acre redevelopment of London's King's Cross area for King's Cross Central Limited Partnership. One of our most significant projects there to date has been to build the Arthouse, an eight-storey development of 143 one, two, three and four-bedroom properties including 29 affordable homes.

Now, in the next phase of our work, we are redeveloping the Grade II-listed, 68,000sqft Midland Goods Shed to be occupied by Waitrose as a 29,000sqft food and wine store, a cookery school and 25,000sqft of office space.

Working on such a sensitive building takes a very high degree of technical expertise. Built by the Great Northern Railway in 1850, the Shed needs to retain its integrity as a historic building of national importance while providing a very high level of performance.

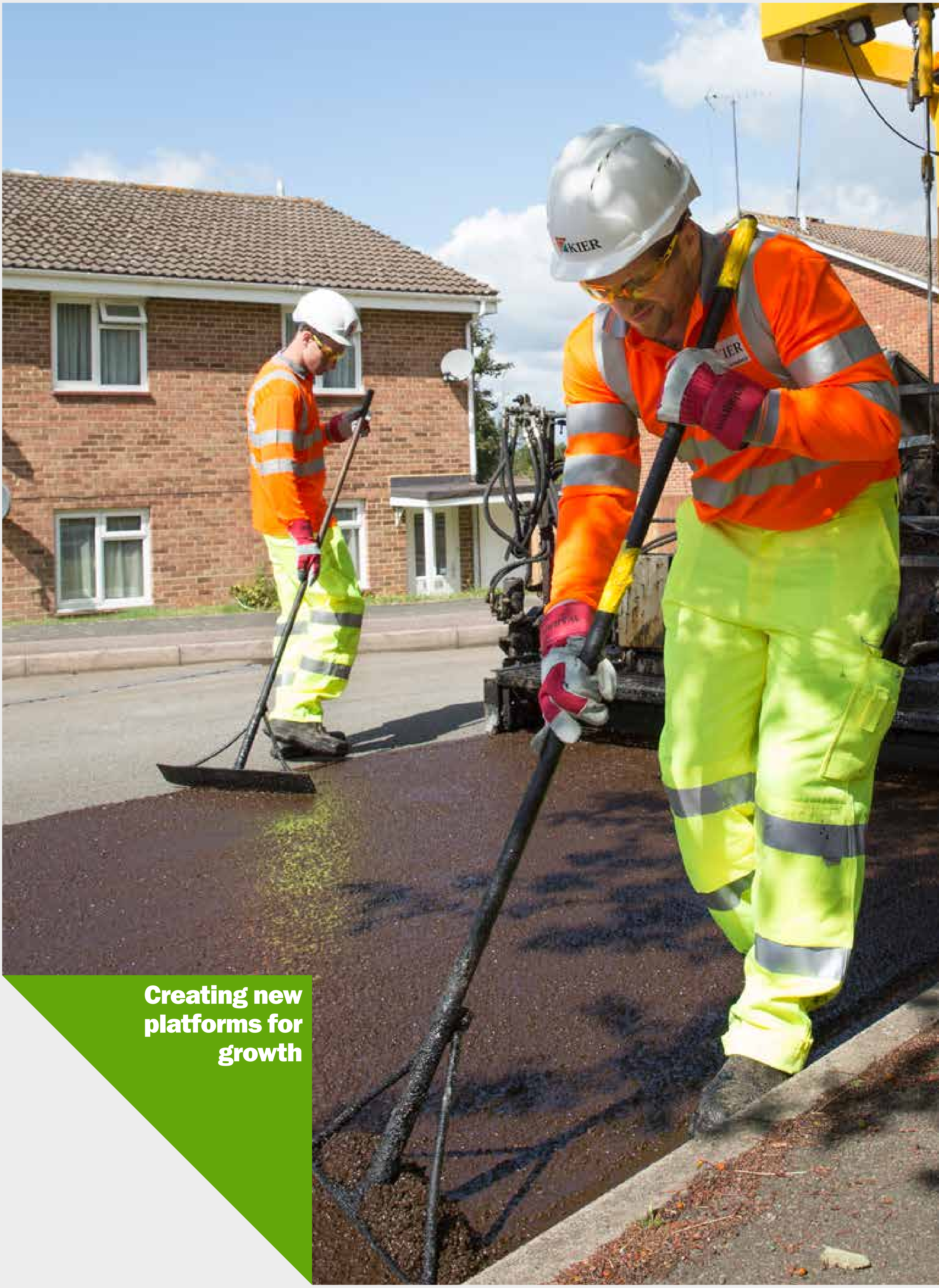
Frameworks

Kier Group chief operating officer, Steve Bowcott (far right), is pictured at a ceremony held to celebrate the start of work on the new £121m Defence College of Technical Training at the former RAF Lyneham base in Wiltshire.

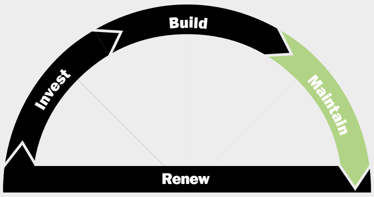
Strategic report

Governance

Financial statements



Creating new platforms for growth



Realising the value of going that extra mile

Maintain: we work with clients to manage and develop their assets. Our focus on working in partnership on defined outputs ensures we deliver the added value they seek.

In Surrey, our highways maintenance contract has grown since 2011 to include a five-year £100m asset investment programme, Project Horizon, focused on finding and fixing the root cause of highway problems and reducing overall maintenance costs. The long-term nature of the programme provides assurance to our suppliers, generates local employment and significantly reduces overall costs. It is estimated the £100m investment will deliver £120m of improvements.

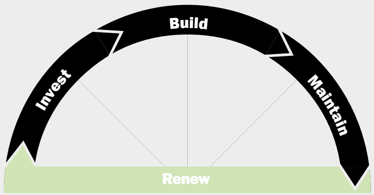
We can control both the cost and the quality of the surface-dressing materials used by our highway teams. Through our in-house production, we lay over 9 million square metres annually with a success rate of over 99.9%.

Torbay Council

As Kier delivers its Vision 2020 growth strategy, an important element of its approach will be to increase the breadth of its services.

A glimpse of that future can already be seen in Torbay, where Kier provides a portfolio of services for the local community ranging from highways and environmental services to cleaning beaches, street lighting, maintaining parks and grounds.

Creating new platforms for growth



Transforming an inner-city derelict site into a vibrant new community

Renew: returning life to tired communities involves creating a complete social infrastructure, including new economic opportunities, affordable housing and accessible public spaces.

Kier's development partnership with Derby City Council and the Homes and Communities Agency (HCA) is entirely transforming the 73-acre Manor and Kingsway site. What was a derelict brownfield site is fast becoming a vibrant and sought-after new neighbourhood that has already won many design and renovation awards.

Started in 2012 on a former hospital site some 2.5 miles south-west of Derby city centre, the development is a priority project for the city due to its potential as a provider of new homes, jobs, businesses and economic growth.

When complete, Manor Kingsway will comprise around 700 new homes, including a high proportion of affordable properties for purchase, rent or shared ownership and a business park supporting around 450 new local jobs. It is making use of the existing features of the landscape, to bring a large area of open space back into use for leisure and an ecology area.

Woking PFI

Another example of where derelict land is being regenerated for the local authority to create an entire new community is Moor Lane, Woking, where 373 new homes will include 224 affordable rental properties managed by Thames Valley Housing.

The sale of the remaining 149 homes will cross-subsidise the project and illustrates our work with the public and third sectors to address the UK's national housing shortage.

Key performance indicators (KPIs)

We monitor our performance against a range of financial and non-financial KPIs that measure progress in delivering our strategy and which we believe are important to our long-term success. These KPIs will be reviewed moving forward to ensure they are relevant operationally as well as in a strategic management context.

Financial

Key performance indicator	Aim Alignment to strategic priorities	Context	Progress in 2014	
Revenue growth	Deliver annual revenue growth in line with Vision 2020 2 4	Our aim is to deliver accelerated growth across our business, organically and by acquisition, to be a top three player in our chosen markets.	£2,985m (2013: £1,983m)	+51%
Underlying operating profit*	Maintain consistent underlying operating margins 1 2 3	Underlying operating profit is our key measure of financial performance. Our target is to produce double-digit compound annual growth in profits through to 2020.	£88.0m (2013: £55.5m)†	+59%
Underlying EPS* (Earnings per share)	Achieve long-term growth in EPS 1 3	We are focused on shareholder value and maximising sustained growth in earnings per share.	107.7p (2013: 105.6p)†	+2%
ROCE (Return on Capital Employed)[1]	Achieve ROCE above the Group's target of 15% 3	ROCE measures our ability to generate returns on the capital invested in our business. We target a minimum 15% ROCE on all capital investment decisions. ROCE fell during the year reflecting the full effect on capital employed of the acquisition of May Gurney, which is expected to deliver 15% ROCE by 2016.	15.6% (2013: 21.2%)†	-6%
Underlying economic profit[2]	Achieve steady growth in economic profit 3	We seek to generate returns that exceed our weighted average cost of capital, currently 9.1% to ensure that we add value from our investment decisions.	£24.8m (2013: £18.0m)	+38%
Debt cover (net debt[10]/ underlying operating profit*)	Ensure debt is conservatively managed to improve cover towards a medium-term target of 1.0 times EBITA 1 3 6	Client confidence and our ability to invest are dependent on a stable, low risk funding structure.	2.4x (2013: not applicable[3])	

1 We calculate ROCE by dividing underlying operating profit* for a period by the sum of long-term borrowings, long-term finance leases and total equity at the end of the period.
2 We calculate economic profit by taking underlying operating profits* and subtracting year end capital employed multiplied by the weighted average cost of capital.
3 The Group held a net cash balance[10] of £46.1m as at 30 June 2013.
4 Health & Safety Executive (HSE) benchmark AIR for the UK Construction industry: 414.
5 Restated pro forma for the 12 months ended June 2013 to include May Gurney; the underlying May Gurney activities reduced AIR by 43% in the year from 1,168 to 663 whilst Kier performance excluding May Gurney improved by 26% from 333 to 248 in the same period.
6 This reflects the percentage improvement in client survey scores for the Services division excluding May Gurney against the survey conducted in 2011.
7 Based on a biennial survey.
8 We define retention as the total number of employees in the period less those employees leaving the Group voluntarily, as a proportion of the total number of employees.
9 CIPD June 2013 Survey, UK industry average 88.2%.
10 Including finance lease obligations.
* 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 4 page 106).
† 2013 results have been restated on adoption of the amendment to IAS 19 (see note 31 page 132).

Strategic objectives

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

Non-financial

Key performance indicator	Aim Alignment to strategic priorities	Context	Progress in 2014
Shareholder returns	Maintain a progressive dividend policy and deliver annual growth 1 3	Our policy demonstrates our commitment to creating shareholder value through increased distributions to shareholders	72.0p +6% (2013: 68.0p)
Safety – accident incidence rate (AIR)	Achieve year-on-year improvement in AIR and remain below the HSE benchmark in the UK[4] 1 4 5	We aim to support our objective to operate a safe and sustainable business by achieving zero harm to our workforce. AIR is a key measurement of the effectiveness of our safety procedures	344 +32% (2013: 506[5]) improvement
Customer experience	Deliver a high level of customer satisfaction 2 4 6	High levels of customer satisfaction are key to supporting sustainable long-term growth across our markets and client base. Client satisfaction results have been collected for parts of the Group, that represent approximately 60% of revenue To continue to achieve high levels of satisfaction and loyalty, we are introducing common client satisfaction measurements across all of our businesses	**Construction** 8.6 out of 10 (2013: 8.5) **Services** +13%[6]
Employee engagement	Achieve a continuous improvement in the employee engagement survey score[7] 1 5	The attitude, skill and motivation of our employees will enable the Group to deliver excellent performance We undertake a biennial employee engagement survey in which every employee is invited to give their opinion of Kier. In 2014, we undertook a new engagement survey, conducting the survey during the integration of May Gurney so as to establish a clear benchmark against which we could measure our future levels of engagement	**Property/Residential** 74% **Construction** 67% **Services** 48%
Employee retention	Retain employees[8] at or above industry average[9] 2 3 5	We recognise our talented and diverse workforce as an important business asset, critical to our success. Measuring our ability to retain employees will help in driving business improvement and growth	88% -2% (2013: 90%)
Sustainability	Maintaining Platinum ranking in the Business in the Community's Corporate Responsibility Index 1 3 4 5	Our financial success and ability to win new work depends upon how we conduct our social and environmental responsibilities As part of the launch of our new Strategy for Sustainability in January 2015, we expect to review this KPI next year	95% Platinum Big Tick (2013: 95% Platinum Big Tick)

Resources, relationships and sustainability

As we provide a greater breadth of services to more customers across a wider geography, we maintain our emphasis on our responsibility to deliver social, environmental and economic value.

Introduction
This year a number of new factors have significantly influenced the Group's approach to social and environmental matters. These include:

- The growing impact of the Social Value Act on clients' contract procurement criteria;
- The changing investor view of risk and responsible business, including changes to the FTSE4Good grading assessment process;
- The introduction of the Government's CAESER (Corporate Assessment of Environmental, Social and Economic Responsibility) Supplier Sustainability Reporting;
- The evolving legislative and regulatory framework within which we operate, including mandatory greenhouse gas emissions reporting;
- The acquisition and integration of May Gurney; and
- The Group's growing international portfolio of work.

Recognising the critical importance of several of these key intangible, non-financial issues, we are taking steps to address all of our corporate responsibilities to help improve and sustain the future value of our business.

In response to these requirements, a stakeholder engagement exercise was undertaken to identify and fully understand the social, environmental, governance and ethical issues that are today most important to our customers, staff, investors, supply chain partners and other stakeholders in their relationship with the Group. Further details are set out below under 'Stakeholder engagement'.

Governance
During the year, we revised the composition of the Group Corporate Responsibility (CR) Steering Committee to better develop and launch, then implement and manage our new strategy for sustainability from 2015. This committee comprises representatives from the central CR, environmental, HR and procurement functions as well as from the business.

In addition, we established a new central CR function to develop the Group's revised CR programme and reporting strategy, as well as to advise and support the operational teams in the delivery of this strategy.

Our performance

Social

Accident Incidence Rate (AIR)
The Group's AIR rate reflects its commitment to create safe working environments through clear and disciplined leadership. Our aim is to achieve continuous improvement in AIR and remain below the Health and Safety Executive (HSE) benchmark for the industry in the UK.

Kier Group AIR (per 100,000 employees and subcontractors):	HSE benchmark AIR (per 100,000):
344[1]	**414**
(2013: 506)[2] 32% reduction	(2013: 589) 30% reduction

1 This figure includes delivery of a 43% improvement in the AIR of Kier MG to 663 (2013: 1,168) and a 26% improvement in Kier UK to 248 (2013: 333). The combined UK business and the Group as a whole have AIR rates below the HSE UK benchmark.

2 Adjusted pro forma comparative figure.

Community engagement
The Group is committed to supporting and engaging with the communities in which it works. Through the continued enthusiasm and energy of our employees, we continue to support a wide range of community projects across the UK and in doing so supported over 39,000 individuals.

Employee hours given*	Equivalent value of employee hours*
161,799	**£2.9m**
(2013: 185,486)	(2013: £3.5m)

* The integration of May Gurney and restructuring affected the extent of data capture for our community activity for 2014.

Employees and training
The Group has continued to increase investment in new entrant programmes and training across the business, demonstrated by a 20% increase in the number of apprenticeships offered by the Group and a 50% increase in the vocational qualifications delivered to our operatives.

Number of employees in registered development programmes:

Programme	2014	2013
Day release/Further Education	**147**	137
Craft Apprenticeships	**294**	230
Foundation Degrees	**123**	148
NVQ – operatives	**742**	505
NVQ – supervisory/management	**58**	61
Undergraduates/sponsored students	**47**	45
Graduate schemes	**238**	251
Total	**1,649**	1,377

Diversity
At the end of the financial year, the breakdown of male/female employees was as follows:

	Male	Female
Main Board directors (inc. non-executive directors)	6	2
Directors/senior managers	221	15
Managers	2,004	303
All employees	10,694	2,756

Stakeholder engagement

In June 2014, we formally engaged with our stakeholders to identify relevant sustainability issues when interacting with the Group. This exercise will also help the Group to define how it reports to its stakeholders, what benchmarking it adopts and how it measures its performance in the future.

Participants included representatives of the following organisations:

Clients:
Grainger Plc
EDF Energy
East Sussex County Council
Network Rail
Circle Housing Group
Watford Borough Council
Test Valley Borough Council
British Land*
Anglian Water*

Investors/analysts:
Broker Profile
Legal & General Investment*

Employee representation:
Property
Construction
Services

Supply chain:
Through the Supply Chain Sustainability School

The most important areas identified were:

- Carbon and greenhouse gas emissions
- Energy
- Local communities
- Training, education and apprenticeships
- Waste management, materials use and market influence
- Financial performance and customer satisfaction
- Health and safety

Other issues identified and discussed were:
- Water
- Biodiversity
- Labour practices
- Governance

The process was facilitated by KPMG who have produced a report for the stakeholders who participated. This will assist in the development of a new Strategy for Sustainability to be launched in 2015, following further consultation with these stakeholders.

* These companies submitted responses to our stakeholder exercise and continue dialogue and interaction on sustainability issues.

Environmental

Our mission is to reduce the impact of our activities on the environment by improving resource efficiency, prioritising reduction in waste and carbon emissions.

Emissions data in respect of the 2013/14 reporting period is as follows:

Emission type	CO_2e tonnes
Scope 1: Operation of Facilities	0
Scope 1: Combustion	113,399
TOTAL Scope 1 Emissions	113,399
Scope 2: Purchased Energy	12,192
TOTAL Scope 2 Emissions	12,192
Total Emissions	125,590
Greenhouse Gas Emissions Intensity Ratio:	
Total Footprint (Scope 1 and Scope 2) – CO_2e	125,590
Turnover (£)*	2,439,243,000
Intensity Ratio (tCO_2e/£100,000)	5.15

* Turnover figure represents calendar year, not financial year.

Notes:
- Our methodology is based on the principles of the Greenhouse Gas Protocol using the boundary of financial control. For further detail on our reporting methodology please see our reporting guidelines at www.kier.co.uk/corporate-responsibility/downloads.
- The period of our report is 1 January 2013 to 31 December 2013 to mirror our reporting to the Carbon Disclosure Project.
- The acquisition of May Gurney has led to an additional 26,689 tCO_2e being reported in this period.
- The Group has not previously reported our international operations' carbon footprints. The impact of this is to add 10,666 tCO_2e to our carbon footprint.
- Turnover figure represents calendar year, not financial year.

Statement of exclusion:
- The Group has excluded our fugitive emissions associated with refrigerant leaks as insufficient information is available across the Group to report these at this time. Action has already been taken to ensure reporting of this in future years.

During the year we reviewed the roles and responsibilities of business unit CR representation, resulting in the issue of a revised CR Representative's 'job description' and the re-appointment of a network of such roles across most business streams. They are key to gathering and collating data on many front-line CR-related activities, particularly in the areas of community engagement and local skills support.

Health and safety

Operating safely is a priority. Every accident is preventable, and it is part of our vision to have a zero Accident Incidence Rate (AIR) across the Group. We are already achieving this in some of our operations and we have significantly reduced the rate of accidents within the May Gurney business since we acquired it. However, despite this improving trend, there were tragically two work related fatalities during the year in our joint venture operations, one in Hong Kong and one on the Crossrail project. Both accidents are subject to further investigations.

Strategy for Sustainability

The findings from the stakeholder engagement survey are being used to develop the Group's new Strategy for Sustainability to be launched in early 2015. Subsequently each division and business stream will adopt their own sustainability strategies which will be aligned with the Group's strategy, and focus on their specific stakeholders.

This strategy will also seek to address better the different demands of our growing international operations.

Benchmarking and KPIs

Some of our CR KPIs and benchmarking criteria are shown on pages 28 to 30. These are currently under review to align them with the Group's Vision 2020 strategy.

Having achieved 95% (Platinum Big Tick) in the Business in the Community (BITC) CR Index (retained for 2014), 80% in CAESER reporting, 81 in our Carbon Disclosure Project submission and many national sustainability awards in the past, including Considerate Constructors Scheme and Green Apple awards, we are now re-examining the criteria through which we will benchmark in future, including which Global Reporting Initiative (GRI) guidelines we adhere to – GRI3 or G4.

Our performance

Marketplace

Customer satisfaction surveys – Construction

Construction division data relates to KPIs taken from across the business and includes specific data on customer satisfaction based on a questionnaire completed by clients.

	2013	2014	Target
Satisfaction product	8.17	**8.31**	8.5
Satisfaction service	8.48	**8.58**	8.5
Perception	9.18	**8.95**	8.7
Defects	8.22	**8.43**	8.2
Average score	8.5	**8.6**	8.5

Supply Chain Sustainability School

Number of unique company members of the school supplying to the Group: 1,081 (2013: 800).

Considerate Constructors Scheme

Since becoming an associate member of the Considerate Constructors Scheme (CCS) in January 2008, Kier has registered over 2,000 sites with the scheme. The Group is an associate member, proving its commitment to comply with all aspects of the Scheme's Code of Considerate Practice: respect for the community, protection for the environment, securing everyone's safety, valuing our workforce, caring about our appearance.

Average	Industry
37.62 (2013: 38.17)	35.29 (2013: 35.24)

Target: To consistently exceed the industry average score by 2 points

Customer performance – Services

The Services division has piloted a method of measuring customer loyalty to drive customer focus across the business.

Results of 'pulse check' surveys have allowed us to better understand customer loyalty, customer effort (i.e. how easy we are to do business with), general satisfaction with our service and how we compare to our competitors.

This insight, combined with regular contract level client and consumer satisfaction surveys, is used to put in place service excellence plans tailored to individual customers.

Results*

Customer Loyalty	+13%

* This reflects the percentage improvement in client survey scores for the Services division excluding May Gurney.

Customer satisfaction – Group

From 2014 we are introducing a consistent way of measuring client satisfaction across the Group. Targets for responses and performance will be set in line with Vision 2020 and its goals relating to customer experience.

Continued engagement – case study

We are currently working closely with British Land through the use of one of the Group's projects, Glasgow Fort, acting as a pilot to test the implementation of their new Supply Chain Sustainability Charter. This Charter addresses 12 major issues of sustainability under the four headings of: Social; Environmental; Ethical; and Management. Since most of these topics selected by British Land mirror those identified through our stakeholder engagement exercise, our participation in this pilot scheme will help us to develop and then verify our alignment with other customer aspirations.

Customer engagement such as this will help the Group ensure that we understand and better deliver the financial and non-financial value to customers.

Customer satisfaction

In order to demonstrate a sector-leading customer experience, we are introducing a new and consistent way of measuring customer service and client satisfaction across the Group.

As we provide more services to more customers and a wider mixture of individual clients, it is critical that we build upon the loyalty of our current clients and fully understand their service level expectations.

The data given opposite relates to both the Construction and Services divisions. We have now agreed a new set of questions for measuring client satisfaction in a consistent way across the Group. Regular face-to-face discussions about our performance take place throughout the life of our contracts and relationships with clients. Formal measurement will be recorded no less than annually. Targets for responses and performance levels will be set in line with Vision 2020 and its goals relating to customer experience.

Going forward, we will benchmark our performance against the best in and out of sector and focus our business improvement activities on delivering a sector-leading customer experience.

Adding social, economic and environmental value to customer experience

The Group's financial success and ability to win new work will be affected by how we address our social and environmental responsibilities.

The CR function works very closely with the bidding teams in Construction and Services establishing a CR/sustainability data base of best practice, data and case studies in support of our tender activities which include an increasing number of sustainability-related questions. Members of the bid and best practice teams for Construction, Services and Property sit in the Group CR Steering Committee to ensure a joined-up approach to these issues.

The Kier Foundation

The Kier Foundation, the registered charity that supports Kier employees in raising funds for good causes throughout the UK, provided £33,124 of support funding in the year for 123 employee events in aid of 76 charities and good causes. The Foundation also concluded its relationship with the Group's corporate charity partner, Barnardo's, having raised £250,000 by June 2014. The new Group corporate charity until June 2016 is Macmillan Cancer Support.

The Kier Foundation is now an important part of the Kier culture and provides an invaluable link between our employees and their businesses and the local communities in which they operate.

Group Corporate Responsibility Report 2014

The full Kier Group CR Report 2014, which gives a broad review of our sustainability programme, activities and achievements in the year to 30 June 2014, is available to download from the Corporate Responsibility section of our website at www.kier.co.uk/corporate-responsibility/downloads. This full report covers all of our CR performance data in the period and provides a range of information with a focus on social, environmental, marketplace and management issues. It also articulates in greater detail the work and achievements of The Kier Foundation.

KPMG LLP were engaged to deliver a limited assurance over selected performance data presented in our full CR report. For further details, KPMG's full assurance statement is on our website. The full report has also been self-assessed to meet the GRI reporting guidelines at level C+ in accordance with the G3 Sustainability Reporting Guidelines.

The CR section of our website (www.kier.co.uk/corporate-responsibility) is regularly updated with the latest activities and performance data and contains all of our latest reports, policies and contact details for the Group CR team.

Principal risks and uncertainties

The nature of the industries and the business environment in which the Group operates are inherently risky. Although it is recognised that it is not possible to eliminate all such risks and uncertainties, the Group has well-established risk management and internal control systems – a more detailed description may be found on pages 65 to 66.

We reviewed and assessed the risks below:

Risk	Strategy impact	Mitigation	Ranking (post mitigation)	Change from 2013	Main causes of movement
Funding The Property division relies heavily on capital provided by the Group, while the Construction and Services divisions rely heavily on Group bonding facilities. Without these, revenue and profit would reduce.	2	Cash flow is forecast regularly so as to provide up-to-date and accurate information on the Group's cash position and its requirements. Borrowing facilities 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. The Investment Committee is responsible for approving capital investment and optimising the allocation of capital.	4	↔	
The market The Group's strategy is dependent on the planned level of expenditure within both the public and private sectors. Whilst there are early signs of recovery within global economies there is the risk that business opportunities assumed within the Group's strategy are delayed. Smaller markets will result in both lower revenues for the Group and lower margins due to more competitive bidding.	2	The Group has a structure to manage and mitigate risk with the following key components: • A wide geographic regional network of offices across the UK well integrated into local communities, the client base and the supply chain; • A high number of framework agreements and partnerships with government, local authorities and the private sector; and • A strong sector diversity allowing it to react to evolving opportunities in the marketplace. The Group also carries out monthly and quarterly reviews of its workload and forecasts its overhead levels as a percentage of future work in order to maintain a steady ratio of overhead costs to revenue. Fuel and other materials that are in high demand, such as steel, are hedged or forward-purchased when deemed necessary.	8	↔	
Tender pricing The work for which Kier tenders is often complex and long-term with significant associated risks. Tender assumptions may be inaccurate or the risks associated with the tender may not be fully understood. If risks are under-priced, contract losses and potential reputational damage will result. If risks are over-priced, order books will suffer.	3 4	The Group's appetite for very long-term, large, competitively tendered construction contracts is limited, influenced by the desire to maintain quality of workload and manage risk. Tenders for contracts are subject to approval by the CEO / COO / CFO or divisional directors, depending upon the value and nature of the contract. Tenders with defined specific risks are reviewed by the Risk Review Committee.	7	↔	
Contract delivery The Group carries out several hundred contracts annually and the risks to which the Group is exposed are dependent on the nature of the work, the duration and the legal form of the contract. If these risks are not managed effectively the Group will suffer contract losses, delays and potential reputational damage.	3 4	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.	2	↔	

Strategic objectives

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

Minor
Moderate
Major
Critical

Movement

↑ Increased net risk
↔ Unchanged net risk
↓ Reduced net risk

Risk	Strategy impact	Mitigation	Ranking (post mitigation)	Change from 2013	Main causes of movement
Reputation The Group's ability to tender for new business and its relationship with its range of customers, supply chain partners, its employees and other stakeholders depends in large part on the good reputation that it has established and how it is perceived by others. The Group's growth targets will not be achieved if this risk is not managed.	2 4	In order to protect and enhance its reputation, the Group has a robust series of business ethics, sustainability and compliance policies that help deliver the Group's corporate responsibility programme, which addresses issues such as health and safety, environmental impact, climate change, employees, customers and supply chain and community engagement.	6	↔	
People The Group is dependent on members of its senior management team and on a flexible, highly skilled and well-motivated workforce. As core markets emerge from recession, employee turnover has increased. If the Group does not succeed in attracting, developing and retaining skilled people it will not be able to grow the business as anticipated.	2 5	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 managed at all levels in the Group. The Group has a performance review process which is designed to assist in the career development of its staff and also to identify potential successors to roles within the Group (including at senior management level).	1	↑	Resource shortages as market recover
Systems The efficient operation of the Group is increasingly dependent on the proper operation, performance and development of its IT systems. The Group is maintaining legacy systems prior to implementing an ERP system. If implementation is unsuccessful, this will impact the Group's efficiency and profitability.	3 6	Group IT centrally manages the majority of systems across the Group. Other IT systems are managed locally by experienced IT personnel. Significant investments in IT systems are subject to Board review and approval. In addition, the Group has an Information Security Committee.	3	↑	Stretched front-office systems in Services following May Gurney acquisition
Compliance The Group is subject to a number of complex, demanding and evolving legal and regulatory requirements. A breach of laws or regulations could lead to legal proceedings, investigations or disputes resulting in a disruption of business, ranging from additional costs incurred on a project to civil and/or criminal penalties as well as reputational damage.	1 4	The Group monitors and responds to legal and regulatory developments in the areas in which it operates. It is the Group's policy to require that all of its subsidiaries, employees, suppliers and subcontractors comply with applicable laws and regulations. Training is provided on relevant areas of law and regulation, including e-learning courses, to keep all parties fully aware of their responsibilities. Contracts entered into by the Group are subjected to a review process to ensure that contractual risks are identified and, wherever possible, mitigated appropriately.	9	↔	
Safety The Group's activities are inherently complex and potentially hazardous, and require the continuous monitoring and management of health, safety and environmental risks. Failure to manage these risks could result in injury to employees, subcontractors or members of the public or damage to the environment. This could also expose the Group to significant potential liability and reputational damage.	1 2	Detailed policies and procedures exist to minimise such risks and are subject to review and monitoring by the operating businesses and Group. All operating businesses have a director who is responsible for co-ordinating health and safety activities.	5	↔	
Change In the last 12 months, the Group has acquired May Gurney and restructured its management, and now plans to implement an ERP system. The volume and pace of change risks diverting management attention away from core operations, causing a loss of focus on key market opportunities.	3 6	Risks associated with the current change programmes have been identified by the Board and the Risk Management and Audit Committee as requiring particular focus. A steering group, led by the chief operating officer and reporting regularly to the Board, has been established to address them and ensure that appropriate controls are in place to mitigate them.	10	n/a	Not deemed a principal risk in 2013

Divisional review: Property and Residential

The development business focuses predominantly on non speculative opportunities.

From 1 July 2014 Kier's house building activities were brought into one division, Kier Residential.

Revenue
£284m +19%
(2013: £238m)

Operating profit[1]
£21.0m +2%
(2013: £20.5m)

Employees
411
(2013: 350)

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.

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

[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).

Costco
Costco forward funded their £41m membership warehouse at Kier Property's site at Western International Market, Hayes. Kier Construction was appointed as contractor and the building achieved practical completion at the end of June.

Divisional review: Property and Residential
continued

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 stage 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

Harlow ▲
Kier has a long-standing relationship with Harlow Council providing building repair and maintenance and environmental services. When the Council wanted to regenerate spare land, Kier was appointed by the Council to construct nine detached luxury private houses.

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.

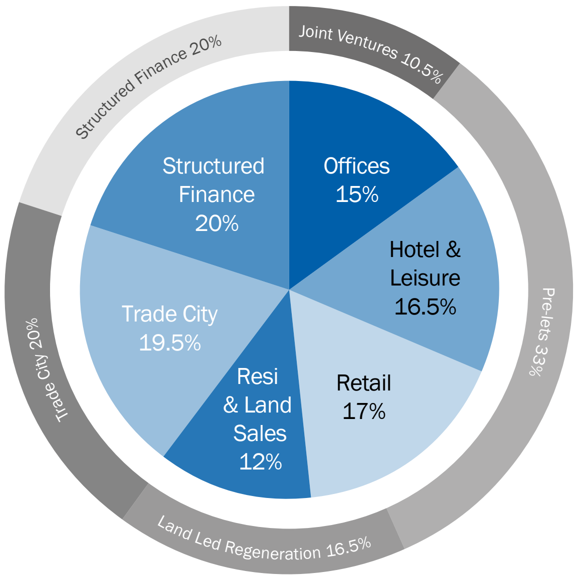
Property and Residential outlook

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 towards £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 housing. Kier Living is well placed to respond to the UK's requirement 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.

Our property markets



Trade City ►
Two Trade City forward funded sites at Hayes (60,000sqft) and Uxbridge (120,000sqft) reached practical completion in the second half with strong interest from potential occupiers.

Walthamstow ►
Solum Regeneration, the partnership between Network Rail and Kier Property, is investing a further £20m in a second phase of development in Walthamstow, London providing a further boost to the regeneration ambitions of the town centre.

Divisional review: Construction

Kier is one of the UK's leading regional builders, with growing infrastructure and international businesses.

Revenue
£1,597m
(2013: £1,307m)
+22%

Operating profit[1]
£33.6m
(2013: £30.4m)
+11%

Operating margin[1]
2.1%
(2013: 2.3%)

Order book
£2.5bn
(2013: £2.3bn)
+12%

Employees
3,720
(2013: 3,911)

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.

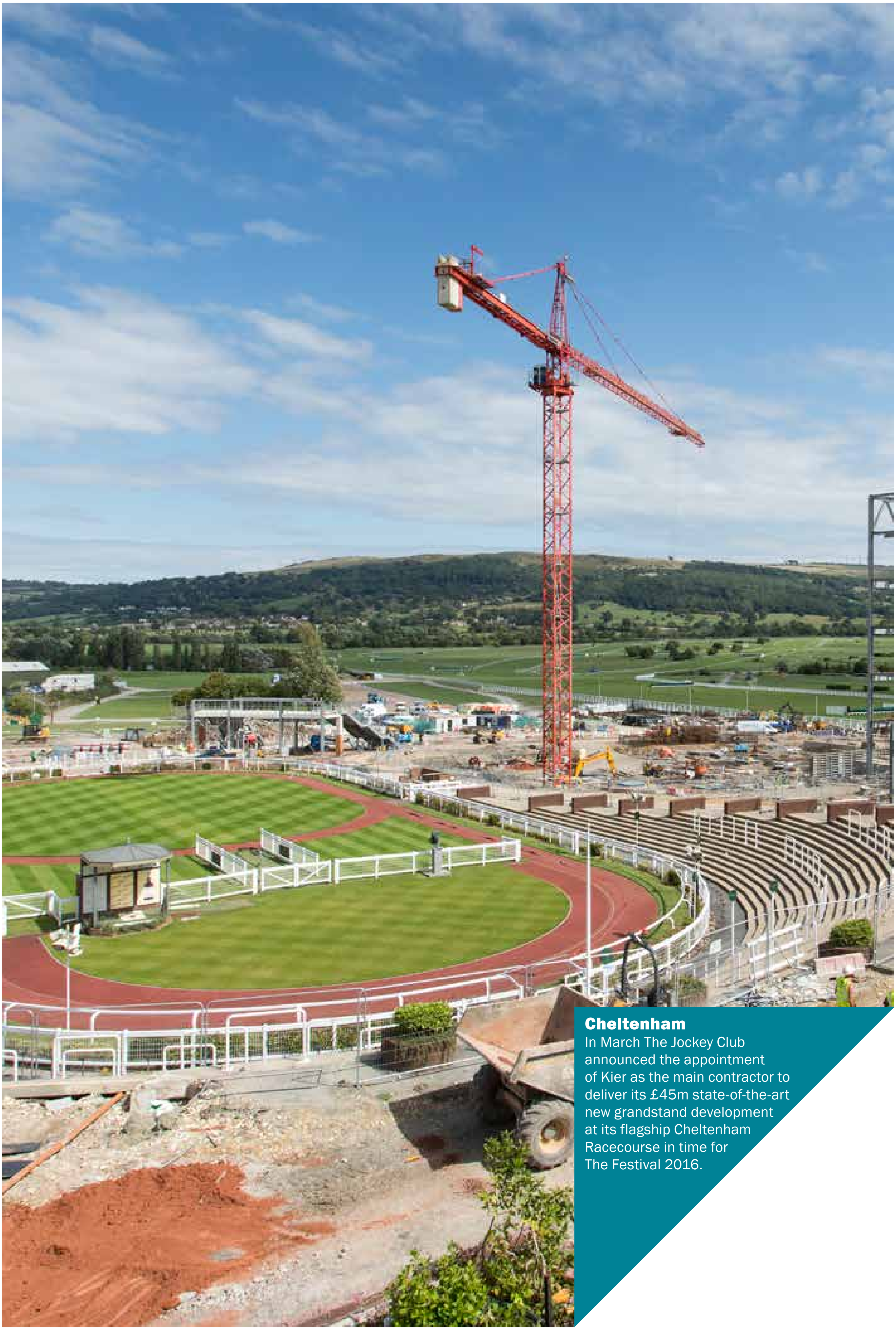
The increase in market activity has resulted in some price inflation with rising labour costs and commodity prices. However, Kier's use of frameworks, greater use of two stage bidding and established supply chain management helped to mitigate this impact. Kier has a large presence in the health, education, 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.

[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).



Cheltenham
In March The Jockey Club announced the appointment of Kier as the main contractor to deliver its £45m state-of-the-art new grandstand development at its flagship Cheltenham Racecourse in time for The Festival 2016.

Christophe Harbour, St Kitts ▲
In October 2013 Range Developments, a leading hospitality developer, appointed Kier Construction for Phase 1 of the £50m Park Hyatt St Kitts project. The project, planned for completion in 2015, will produce a world-class resort hotel at Christophe Harbour, a 2,500-acre resort community being developed on the Caribbean island of St Kitts.

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.

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 four 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 Berryfields 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 AMP6 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.

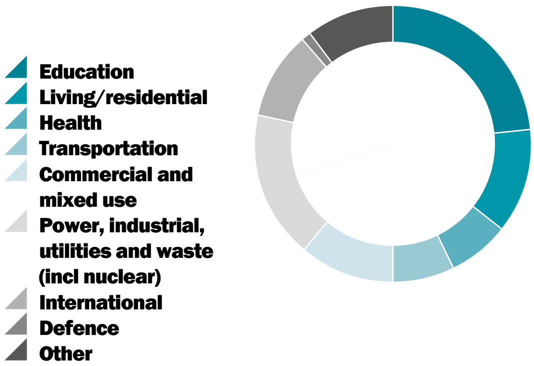
It is anticipated that there will be a rising level of opportunities in the UAE supporting growth in our international operations. In Dubai, the real estate, tourism, transportation and infrastructure sectors are all yielding good opportunities as the economy recovers strongly and as the Emirate prepares 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 businesses, it is anticipated that the Construction division margin will increase to 2.5% over the next 5 to 6 years.

* Source: CPA

Construction revenue by sector



Plymouth ▶
Work is well underway on the main construction works for MVV Umwelt's Energy from Waste plant at Weston Mill in Devonport Dockyard, Plymouth. This project further endorses Kier's position as the UK's number one contractor for power-related infrastructure.

Crossrail ▶
Kier's involvement in Europe's largest engineering project, Crossrail, has enabled the Group to penetrate other parts of the rail market. Through its joint venture with BAM, Kier is currently involved in four packages of Crossrail work.

Divisional review: Services

With a broad range of capability and a wide geographic spread, the division is well placed to win new outsourcing opportunities arising in the marketplace.

Revenue
£1,104m **+153%**
(2013: £437m)

Operating profit[1]
£53.3m **+176%**
(2013: £19.3m)

Operating margin[1]
4.8%
(2013: 4.4%)

Order book
£3.7bn **+85%**
(2013: £2.0bn)

Employees
10,813
(2013: 5,595)

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 is below 1.5% in an 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

[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).

Anglian Water
Since the May Gurney acquisition, new works with Anglian Water have increased with Kier now on three of the four Anglian frameworks. Kier continues to work with the client to help them reduce their overall cost base.

Divisional review: Services
continued

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.

Utilities

Kier's penetration of the utilities sector continues to expand into 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 a 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 highways 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

Genesis▲
Kier secured a four-year £140m repairs and maintenance contract with Genesis Housing Association, one of the G15 who represent London's fifteen largest housing associations. Kier provides responsive repair services to over 10,000 Genesis properties, as well as undertaking planned maintenance work across the whole Genesis portfolio of 33,000 homes.

discussions are underway with a number of councils including Northamptonshire 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 the London Borough of Camden 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 & passenger services businesses remain under review.

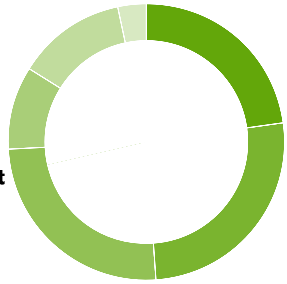
Services outlook

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%.

"Greater interaction between our Construction and Services divisions has resulted in additional or larger scale contracts in the year."

Services revenue by sector

- Utilities
- Housing maintenance
- Highways maintenance
- Facilities management
- Environmental
- Fleet & passenger services



FM ▶
Kier combines the latest technology, logistics expertise and innovative service design to provide a complete range of environmental services tailored to meet the individual needs of local communities. Our customer-focused front-line delivery teams serve more than 3.2 million households across the UK, working in long-term partnership with more than 20 public and private sector clients.

FM ▶
With a foothold in the £44bn FM market, the business is reshaping to extend its geographic reach for growth both organically and by acquisition.

Financial review

Strong results

The Group has considerable financial resources, committed banking facilities, long-term contracts and strong order books, putting it in a strong position for the future.

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

Accounting policies

The Group's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. There have been no significant changes to the accounting policies adopted by the Group during the year ended 30 June 2014 other than the adoption of the amendment to IAS 19 (see note 31 page 132).

Financial performance

Reported results and underlying results, which are stated before non-underlying items, are shown in the table opposite.

Underlying financial performance

Revenue has increased by 51% (£1.0bn), reflecting growth in all divisions, particularly in Services where the acquisition of May Gurney has had a significant effect. On a like for like basis, adjusting for the acquisition of May Gurney, revenue has increased by 13%.

The revenue from our Property division is derived from the combined £1.5bn property development and mixed tenure housing pipeline. With effect from 1 July 2014, the three existing areas of Kier's house building activities: private housing; mixed tenure housing (previously part of Property); and contracted residential projects (previously part of Construction) were brought together into a new division, Kier Residential, which will be reported as a single business segment going forward.

Construction revenue was up 22% to £1.6bn (2013: £1.3bn) reflecting considerable market and contract growth, particularly in the infrastructure and international businesses.

In Services, the May Gurney acquisition increased revenue significantly, with the addition of the utilities and highways maintenance businesses, as well as giving an increased presence in environmental. Housing maintenance has also seen good organic growth from previously announced contract wins including the £200m Circle contract.

Operating profit, including joint ventures, was 59% higher than last year at £88.0m, reflecting a strong underlying performance combined with a significant contribution from May Gurney. On a like for like basis, adjusting for the acquisition of May Gurney, operating profit* has increased by 3%.

Operating profit* (£m)
£88.0m +59%

Earnings per share* (p)
107.7p +2%

Profit before tax* (£m)
£73.1m +54%

Dividend per share (p)
72.0p +6%

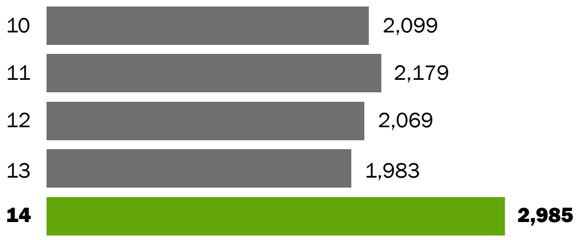
* Underlying operating profits and margins, pre-tax profits and EPS are stated before exceptional items totalling £42.2m (2013: £17.0m), amortisation of intangible assets relating to contract rights of £10.8m (2013: £3.4m) and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition of £5.3m (2013: £1.3m). Reported operating profit was £35.0m (2013: £35.1m). 2013 results have been restated to reflect this presentation (see note 4 page 106) and the adoption of the amendment to IAS 19 (see note 31 page 132).

† Restated on adoption of the amendment to IAS 19 (see note 31 page 132).

1 Group and share of joint ventures.

Revenue (£m)

£2,985m **+51%**



The results of our Property division, which include our property development activities, the operating profit* of our private and mixed tenure housing businesses and the disposal profits from selling two of our PFI investments, contributed £21.0m of the total Group operating profit*; a similar level to last year. The property development business achieved its target of 15% return on capital and our PFI investments were replaced at a similar rate to the disposals. The residential businesses reported increased operating profit* of £4.9m (2013: £4.3m) from growth in our mixed tenure housing activities.

The operating margin* in Construction of 2.1% was in line with our expectations of around 2% and represents a good performance in today's market, reflecting the selective approach we have to new work, our prudent profit recognition policy and the benefit of the restructuring programme undertaken in 2013. Robust performance in UK building and infrastructure, including continued good progress on our Crossrail contracts, was tempered by operational delays and challenges in the Mass Transit Rail Corporation timetable which affected our Hong Kong operations.

In Services, we achieved an operating margin* of 4.8%, reflecting the increased mix of services available to clients, generating additional and/or larger scale contracts and the realisation of cost savings arising from the integration of May Gurney. Utilities and highways maintenance both delivered results in line with our expectations whilst the contribution from housing maintenance reflected the impact of mobilising the Circle contract. As expected, the environmental services market was challenging whilst our FM business delivered a strong result, reflecting the effect of rigorous maintenance programmes thereby reducing total life-cycle costs.

Further information on the operating performance of each of the divisions is provided within the divisional reviews.

The total corporate cost was £19.9m which includes: £13.6m of pension charges, following the adoption of the amendment to IAS 19, and £6.3m of unrecovered overhead, reflecting the increased scale of the Group, as well as increased central investment in risk and performance management, strategic procurement, IT and sector leadership.

Financial performance

	2014 £m	2013† £m	Change %	Like for like %
Revenue[1]	**2,985**	1,983	+51	+13
Underlying operating profit*	**88.0**	55.5	+59	+3
Profit before tax				
– Underlying*	**73.1**	47.6	+54	
– Reported	**14.8**	25.9	-43	
	p	p		
Earnings per share				
– Underlying*	**107.7**	105.6	+2	
– Reported	**18.4**	62.6	-71	
Dividend per share	**72.0**	68.0	+6	
	£m	£m		
Average month-end net debt	**140**	4		

Corporate costs

	2014 £m	2013† £m	Change £m
Unrecovered overhead	6.3	1.6	4.7
IAS 19R Pension charge	13.6	13.1	0.5
Total	19.9	14.7	5.2

The Group's net finance cost, analysed below, included interest payable arising from an average month-end net debt balance of £140m (2013: £4m) after the acquisition of May Gurney and considerable investment during the year.

Net finance costs

	2014 £m	2013† £m
Net interest payable on operating cash balances	1.5	0.1
Interest payable and fees on committed borrowings	7.8	3.0
Interest payable on finance leases	2.7	0.4
Unwinding of discount on long-term liabilities	1.1	1.5
Net interest on net defined benefit obligation	1.8	2.9
Total	14.9	7.9

As described in the 'Treasury facilities and policies' section on page 50, our bank facilities were significantly extended on the acquisition of May Gurney in July 2013 resulting in increased interest payable and fees on committed borrowings to £7.8m and interest payable on finance leases to £2.7m for the year.

Profit before tax* increased by 54% to £73.1m (2013: £47.6m†). This is stated before minority interests of £0.7m (2013: £1.0m) relating to the share of profits of our housing maintenance business which are attributable to contracts with local authorities.

The Group's effective tax rate, including joint venture tax on joint venture profits, has increased from 11%† last year to 19%, approximately 3% below the standard corporation tax rate. This low rate did not relate to aggressive tax planning schemes but reflected the contribution from selling two of our PFI investments and the reduction in the standard corporation tax rate.

Earnings per share, were 2% higher than last year at 107.7p (2013: 105.6p†) reflecting both the increase in underlying profits and the significant increase in the weighted average number of shares. The key components of the increase in the number of shares were the shares issued on the acquisition of May Gurney Integrated Services, the scrip dividend alternative offered to shareholders and our employee Save As you Earn scheme.

Non-underlying items

Non-underlying items comprise amortisation of intangible contract rights of £10.8m (2013: £3.4m), unwinding of discount in respect of deferred consideration and fair value adjustments made on acquisition of £5.3m (2013: £1.3m) and exceptional items of £42.2m (2013: £17.0m) before associated tax credit of £9.8m (2013: £4.8m). There were three main components of this year's exceptional charge:

	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 and related costs	4.5	–
Business restructuring	–	10.1
Closure and discontinuation of scaffolding and related businesses	–	1.9
Loss on disposal of the tower crane and other discontinued businesses	–	3.2
Total exceptional items	42.2	17.0

* 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 4 page 106).

† Restated on adoption of the amendment to IAS 19 (see note 31 page 132).

- £8.1m of deal costs and fees relating to the acquisition of May Gurney;
- £29.6m relating to business restructuring reflecting the one-off costs associated with the integration of May Gurney; and
- £4.5m predominantly in respect of costs incurred and provision for financial compensation under the previously announced Construction Workers Compensation Scheme and related costs.

The cash outflow during the year in respect of exceptional items was approximately £36m (2013: £11m).

Cash performance

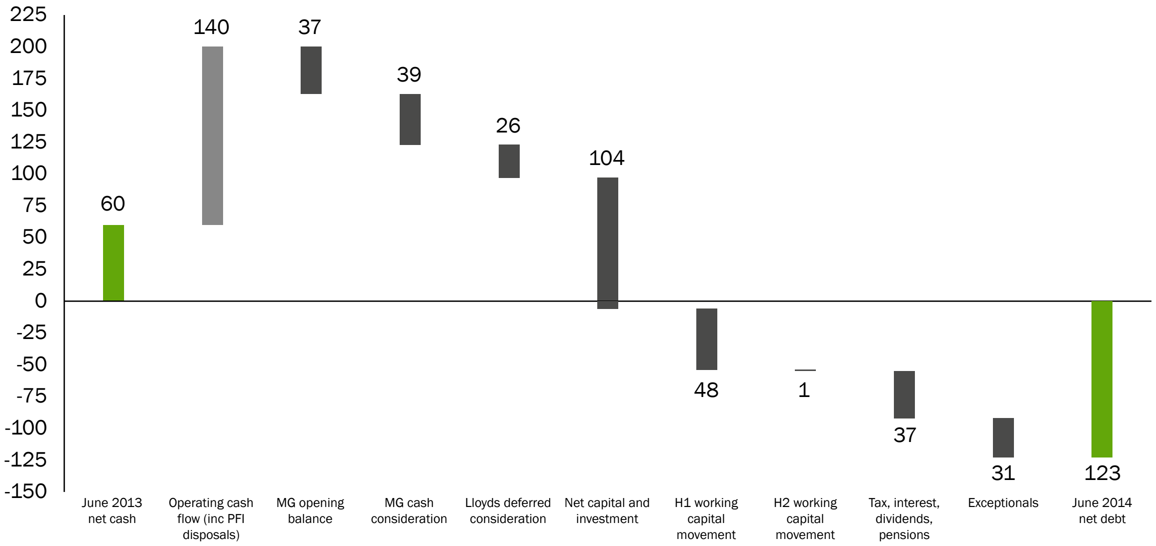
The Group delivered a resilient cash performance, with an average month-end net debt balance of £140m (2013: £4m) after £76m cash cost of the investment in May Gurney, £36m cash outflow in respect of exceptional items, and nearly £130m of capital and investment across the Group, particularly in our mixed tenure housing business, the rest of the Property division and our fleet & passenger services business. This performance produced a net debt position, excluding finance leases, of £123m at 30 June 2014 (2013: net cash £60m).

Within the Group the cash balance at 30 June 2014 (Construction at £274m and Services at £13m) represented a resilient performance. In addition to underlying trading, these performances included approximately £50m of capital and investment-related expenditure, a £36m cash effect of the restructuring activities and a working capital outflow of £50m mainly in Construction, predominantly in the first half of the financial year. Working capital remains a challenge as more stringent supply chain payment terms are applied and as the mix of construction work changes towards more infrastructure where contracts are typically of a target cost nature, and reimbursed against certification rather than pre-funded.

In Property, the year end net debt position of the development business of £72m reflects our strategy to increase the investment in our property development business to around £100m. The net debt position in our housing businesses showed a slight net increase to £239m as investment in our growing mixed tenure housing business was largely offset by sales revenue in our private homes business.

The Group's net debt balance at 30 June 2014 included £112m (2013: £82m) held in joint contracting agreements, overseas bank accounts and other cash arrangements which are not readily available to the Group until the contracts near completion. The liquid cash position is also affected by seasonal, monthly and contract-specific stage completion and payment patterns.

Cash performance (£m)



Order books

We have increased our order books in Construction and Services to a combined level of more than £6.2bn (2013: £6.0bn including May Gurney £1.7bn), as shown in the table below. Hence we entered the new financial year in a strong position with more than 90% of Construction and Services targeted revenue for 2015 either secure or probable.

At 30 June	**2014 £bn**	2013[a] £bn
Construction	**2.5**	2.3
Services	**3.7**	3.7
Total	**6.2**	6.0

[a] Re-presented to include £1.7bn acquired with May Gurney.

Dividend policy

We continue to maintain our progressive dividend policy. Taking into account the performance of the Group, the level of order books and its strong capital structure, the Board has recommended a final dividend of 49.5p, making the full year dividend 72.0p, an increase of 6% on the total paid in respect of 2013 (68p). This reflects the Board's confidence in the business going forward and is 1.5 times covered (2013: 1.5 times†) by underlying earnings per share.

Financial review
continued

Treasury facilities and policies

As at 30 June 2014 the Group had financing facilities as detailed below:

Facility type	Facility amount (£m)	Expiry
Revolving credit facility	190	September 2018
Syndicated term loan	50	September 2016
Funding for Lending term loan	30	January 2017
US private placement	63	December 2019/2022
Overdrafts	45	
Asset finance	121	
Total	499	

Historically, Kier has operated with a low level of balance sheet gearing. However, as customers and our supply chain have become more conscious of the need to manage their own working capital, funding has shifted to construction and services company balance sheets. Accordingly, we have extended our facilities over the medium-term to manage this shift and to provide capacity for continuing investment across the Group.

Facilities were significantly extended at the time of the acquisition of May Gurney in July 2013 with the addition of a four-year £50m syndicated term loan to service the cash cost of the acquisition and £70m additional revolving credit facility (RCF), replacing existing May Gurney facilities. In February 2014, we extended the maturity of our RCFs from 2016 to 2018 on improved terms. These changes follow on from the completion last year of £63m (US$100m) of US private placements for seven and ten year terms, replacing a £30m expired facility, and the securing of a £30m four-year loan under the Government's Funding for Lending scheme.

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

There are minor foreign currency risks arising from our 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 completed to buy and sell foreign currency.

Balance sheet

Total net assets at 30 June 2014 were £310m (2013: £158m) and included intangible assets of £324m (2013: £30m), of which £209m (2013: £13m) related to goodwill and £109m (2013: £13m) related to contract rights. The increase in goodwill and intangible assets during the year results primarily from the acquisition of May Gurney. Testing for impairment of the carrying value of the intangible assets at the year-end showed significant headroom, as described in more detail in note 12.

Corporate activity

During the period from July 2013 to August 2014, we completed two transactions as follows:

- In July 2013, we completed the acquisition of May Gurney for a consideration of £222m. The majority of the purchase price consideration (£184m) was satisfied by the issue of 14.7m new shares, together with cash consideration of approximately £35m (excluding dividend payments of £4m to the shareholders of May Gurney). The integration is well progressed and we are on track to deliver the cost savings as planned. We have completed a comprehensive review of the fair value of the assets and liabilities including the performance of the environmental business, particularly the waste collection contracts for the Bristol and Cheshire West & Chester local authorities which continue to be challenging. This has required a total £73m fair value adjustment of which £57m mainly relates to the long duration loss-making environmental contracts.
- In June 2014, we completed the disposal of our small plant and tools business for approximately £2m, in line with our strategy of withdrawing from peripheral operations.

Inventories

At 30 June 2014, the combined value of residential land and work in progress was £263m (2013: £249m), an increase of £14m. This increase reflects purchases of new housing land and further investment in work in progress in our mixed tenure housing business, partially offset by unit sales during the year.

At 30 June 2014, our land bank comprised 3,672 plots (2013: 4,005). Our focus is to reduce the investment in our land and work in progress for future investment in the Group. As we have stated previously, the majority of our land was purchased before 2008 and therefore we do not anticipate profit from land disposals but simply generation of cash.

Construction contract work in progress increased to £92m (2013: £63m), as a result of increased construction revenue and other work in progress and raw materials and consumables also increased as a result of the acquisition of May Gurney.

Analysis of inventories

At 30 June	2014 £m	2013 £m
Residential land	**119**	127
Residential work in progress	**143**	122
Property land and work in progress	**69**	73
Construction contract work in progress	**92**	63
Other work in progress	**23**	10
Raw materials and consumables	**24**	4
Total	**470**	399

Pensions

The Group's principal pension scheme is the Kier Group Pension Scheme, which includes both defined benefit and defined contribution sections. During the year, the Group also participated in three smaller schemes: a defined benefit scheme on behalf of its employees in Kier Sheffield LLP and two schemes acquired with May Gurney which, for reporting purposes, are combined.

The financial statements reflect the pension scheme deficits calculated in accordance with IAS 19. The new pensions accounting standard came into force for Kier for the June 2014 financial year and the 2013 figures, as comparatives, have been restated. The expected return on scheme assets and the interest cost on scheme liabilities, previously reported in the income statement, 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 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.

At 30 June 2014, on an IAS 19 basis, the net deficit of the Kier Group Pension Scheme was £50m (2013: £37m). The market value of the scheme's assets was £837m (2013: £784m) and the net present value of the liabilities was £900m (2013: £832m). The increase in the net deficit was a result of changes in the key assumptions, particularly the lower than predicted discount rate. Clearly these assumptions change as market rates fluctuate.

The triennial valuation of the scheme as at 1 April 2013 has now been concluded, resulting in an increase in additional deficit contributions of about £1m pa. The Group is currently consulting with members over the closure of the defined benefit section to future accrual.

The original contract with Sheffield City Council, under which liability for the Kier Sheffield LLP scheme rested with Kier, finished in March 2014 at which time the Group's participation in the scheme ceased and the assets and liabilities were transferred back to Sheffield City Council. At 30 June 2014, the May Gurney schemes showed a net surplus of £2.6m (at acquisition: £3.0m).

Note 8 to the financial statements includes a sensitivity analysis that highlights the effect of changes to the key assumptions behind the valuation to the pension schemes. A net pension charge of £14.0m (2013 restated: £16.0m) has been reported in the income statement in accordance with IAS 19.

Going concern

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

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

Haydn Mursell
Chief Executive

Chairman's introduction

A culture of good governance

The Board believes that its effectiveness, and that of the Group, should be supported by a strong governance framework.

Dear shareholders,

The 2014 financial year was another successful one for Kier. The Group continues to demonstrate its ability to adapt to significant change, having recently integrated May Gurney and also undertaken a comprehensive business-efficiency programme.

The Board believes that its effectiveness, and that of the Group, should be supported by a strong governance framework. The Board is responsible for ensuring that governance across the Group is robust, in particular so as to manage its future growth.

In this part of the annual report, we set out the measures that we have taken to ensure that the Group continues to apply high standards of corporate governance. As an introduction, I set out a summary of some of the important corporate governance issues which the Group has faced during the year.

Leadership and effectiveness

The Board is collectively responsible for the long-term success of the Group and for establishing a framework of prudent and effective controls to enable risk to be assessed and managed. We also believe that good corporate governance requires a board with an appropriate range of skills and experience.

There have been a number of changes to the Board during the year: Paul Sheffield stood down as chief executive, Chris Geoghegan retired as a non-executive director and, more recently, Kirsty Bashforth was appointed as a non-executive director.

I would like to express our thanks to Paul for his long service with Kier. He made a significant contribution in over 30 years with the Group, most recently overseeing the acquisition and integration of May Gurney. However, we believe in succession from within Kier and I was therefore very pleased to appoint Haydn Mursell as the new chief executive. We are also pleased that Beverley Dew will be joining us as the new finance director. Beverley has significant experience of working within the construction, services and residential sectors and, when he joins us, will fit in well with the other executive directors and the rest of the Board. We will issue another announcement when his starting date has been decided.

I would also like to thank Chris Geoghegan for his contribution to the Board – in particular, as the chair of the Remuneration Committee and for his support to me as the senior independent non-executive director. We were delighted to have announced the appointment of Kirsty Bashforth as a non-executive director with effect from 1 September 2014. Kirsty brings a wealth of experience from her time at BP plc. Since joining us, Kirsty has been participating in a comprehensive induction programme and has already demonstrated that she will play a key part in the boardroom debate.

When making these changes, we considered the balance of skills and experience required by the Board and the need to ensure that we have a diverse board in terms of background, experience and gender. Although we do not have a target in relation to the number of women on the Board, we endorse Lord Davies' recommendations and include diversity as a key consideration when assessing its composition.

Accountability

As a board, we understand our responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. We also understand the need to maintain sound risk management and internal control systems. During the course of the year, the Risk Management and Audit Committee has assisted the Board to discharge its obligations with respect to these two requirements.

Remuneration

This year, there have been a number of changes in reporting requirements for the Remuneration Committee to consider. You will see that the directors' remuneration report includes both a section outlining the Group's remuneration policy and a section reporting on remuneration during the year ended 30 June 2014. The Remuneration Committee has reflected shareholders' views in the remuneration policy, ahead of putting it to a shareholder vote at the 2014 annual general meeting.

Relations with shareholders

Members of the Board have met a number of our institutional investors during the year to understand their views on matters of significance to them. As chairman, my discussions with shareholders during the course of the year on a variety of governance and strategy matters have helped to ensure that I can keep the Board informed about their issues and concerns. Further details of our engagement with shareholders are set out on page 59.

The annual general meeting provides a valuable opportunity for all shareholders to hear more about how we have performed during the year and to meet the Board in person. I look forward to welcoming shareholders at the meeting on 13 November 2014.

Phil White
Chairman
17 September 2014

Board of directors

Phil White CBE (65)
Chairman

Appointed chairman of the Group in January 2008, 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 within 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 and Vp plc. He is chair of the Nomination Committee and a member of the Remuneration Committee.

Committee membership

Haydn Mursell (43)
Chief executive

Appointed chief executive with effect from 1 July 2014. Joined Kier in August 2010 as finance director designate and took over the role of group finance director in November 2010. He also assumed operational responsibility for the Property division in June 2013. He was previously deputy group finance director at Balfour Beatty plc and, prior to that, UK finance director at Bovis Lend Lease. He is a member of the Institute of Chartered Accountants, having trained and qualified at KPMG.

Steve Bowcott (59)
Chief operating officer

Re-joined Kier in January 2007 as a director within the Construction division. He was appointed to the Board in July 2010 and was appointed as the chief operating officer in June 2013. He has operational responsibility for the Group's construction and services operations. He has over 35 years' experience in building, civil engineering and utilities with experience in both the UK and overseas and has led the integration of May Gurney and the Group's recent business-efficiency programme.

Richard Bailey (62)
Non-executive director

Appointed to the Board with effect from October 2010. He is a chartered accountant and a partner in Rothschild, the global financial advisory business, where he has spent most of his career. He is currently chairman of Rothschild's regional business. 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 the senior independent non-executive director, the chair of the Risk Management and Audit Committee and a member of the Nomination and Remuneration Committees.

Committee membership

Kirsty Bashforth (44)
Non-executive director

Appointed to the Board with effect from 1 September 2014. She has over 20 years of experience with BP plc ('BP'). Her current role is Group Head of Organisational Effectiveness, having undertaken a number of other roles within BP, including leading a process and capability improvement programme across its global 'b2b' marketing businesses, running its European petrochemicals marketing, supply and logistics business and financial engineering and risk management roles. She is a member of all four Board committees.

Committee membership

Key:

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

Amanda Mellor (50)
Non-executive director

Appointed to the Board with effect from December 2011. She is the Group Secretary and Head of Corporate Governance of Marks and Spencer Group plc, having previously been Head of Investor Relations at Marks and Spencer and Director of Corporate Relations at Arcadia Group plc. Prior to this, she worked in investment banking at James Capel and Robert Fleming. She is a member of the Council of Leeds University, where she is also a visiting professor. She is a chartered secretary and a Fellow of the Chartered Institute of Secretaries. She is the chair of the Remuneration Committee and a member of the other three Board committees.

Committee membership

Nick Winser CBE (54)
Non-executive director

Appointed to the Board with effect from March 2009. He was a member of the board of directors of National Grid plc from April 2003 to July 2014, during which time he undertook a number of senior roles within the organisation. He is a chartered engineer and a Fellow of the Royal Academy of Engineering. He is Chairman of the IET's Power Academy, Chairman of CIGRE UK and President of the European Network of Transmission System Operators for Electricity. He is the chair of the Safety, Health and Environment Committee and a member of the other three Board committees.

Committee membership

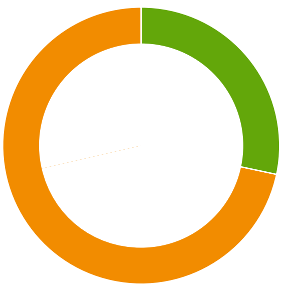
Hugh Raven (42)
Company secretary

Joined the Group in April 2010, having previously worked for top City law firms, latterly as a partner in Eversheds' corporate department. He has significant experience of a wide variety of legal and regulatory issues, having advised a number of clients in the construction sector. He has responsibility for the Group's legal affairs and is the company secretary.

Composition of the Board

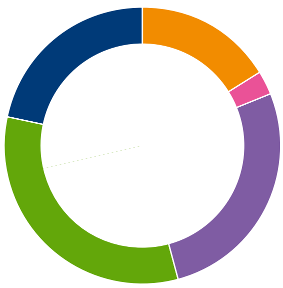
Executive

Non-executive



Length of tenure of non-executive director

Richard Bailey: 10/2010
Kirsty Bashforth: 9/2014
Amanda Mellor: 12/2011
Phil White: 7/2006
Nick Winser: 3/2009



Corporate governance statement

Compliance with The UK Corporate Governance Code

The Board recognises the importance of high standards of corporate governance and is committed to managing the Group's operations in accordance with The UK Corporate Governance Code ('the Code'). A full version of the Code can be found on the Financial Reporting Council's website: http://www.frc.org.uk. The September 2012 edition of the Code applied throughout the year; however, the Listing Rules require the Company also to comply with the previous edition of the Code, which was issued in June 2010. The Company complied with both editions of the Code throughout the year, the Main Principles having been applied as follows:

A. Leadership

A1 The Board's role

The Board met formally 11 times during the year. There is a clear schedule of matters reserved for the Board, together with delegated authorities throughout the Group.

A2 A clear division of responsibilities

The roles of the chairman and chief executive are clearly defined. Phil White, the chairman, is responsible for the leadership and effectiveness of the Board. Haydn Mursell, the chief executive, is responsible for leading the day-to-day management of the Group within the strategy set by the Board.

A3 Role of the chairman

The chairman sets the agendas for meetings, manages the meeting timetable (in conjunction with the company secretary) and facilitates open and constructive dialogue during the meetings.

A4 Role of the non-executive directors

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

B. Effectiveness

B1 The Board's composition

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

B2 Board appointments

The appointment of new directors to the Board is led by the Nomination Committee. Further details of the activities of the Nomination Committee can be found on pages 60 and 61.

B3 Time commitments

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

B4 Training and development

All directors receive an induction on joining the Board and, as part of the annual effectiveness evaluation, the training and development needs of each director are assessed.

B5 Provision of information and support

The chairman, in conjunction with the company secretary, ensures that all Board members receive accurate and timely information.

B6 Board and committee performance evaluation

During 2014, the Board and its committees undertook an evaluation of their respective performances during 2014. Details of the evaluation can be found on page 59.

B7 Re-election of the directors

All directors were subject to shareholder election or re-election at the 2013 annual general meeting, as will be the case at the 2014 annual general meeting.

C. Accountability

C1 Financial and business reporting

The strategic report is set out on pages 1 to 51 (inclusive) and this provides information about the performance of the Group, the business model, strategy and the risks and uncertainties relating to the Group's future prospects.

C2 Risk management and internal control systems

The Board sets out the Group's risk appetite and annually reviews the effectiveness of the Group's risk management and internal control systems. The activities of the Risk Management and Audit Committee, which assists the Board with its responsibilities in relation to the management of risk, are summarised on pages 63 to 66 (inclusive).

C3 Role and responsibilities of the Risk Management and Audit Committee

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

D. Remuneration

D1 Levels and elements of remuneration

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

D2 Development of remuneration policy and packages

Details of the work of the Remuneration Committee and the approach to setting the remuneration policy can be found in the Remuneration Report on pages 67 to 85 (inclusive).

E. Relations with shareholders

E1 Shareholder engagement and dialogue

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

E2 Constructive use of the annual general meeting

The annual general meeting provides the Board with an important opportunity to meet with shareholders, who are invited to meet the Board following the formal business of the meeting.

Board of directors

The composition of the Board and its committees during the year is set out in a table on page 58. The Board currently comprises the chairman, four other non-executive directors and two executive directors. The new finance director, Beverley Dew, will increase the number of executive directors to three.

During the course of the year, the following changes to the Board took place:

- On 31 January 2014, it was announced that Chris Geoghegan would retire as a non-executive director from the Board with effect from 21 February 2014 and that, as a result, Richard Bailey would assume the role of senior independent non-executive director, Amanda Mellor would take over as chair of the Remuneration Committee and Phil White would take over as chair of the Nomination Committee;
- On 18 February 2014, it was announced that Paul Sheffield would retire from the Board as chief executive with effect from 30 June 2014 and that Haydn Mursell would become the chief executive with effect from that date; and
- On 27 June 2014, it was announced that Kirsty Bashforth would become a non-executive director of the Company with effect from 1 September 2014.

Following the announcement of Paul Sheffield's retirement from the Board, it was agreed that, as part of the handover of duties, Haydn Mursell would begin to assume a number of the chief executive's responsibilities prior to becoming chief executive. While the Company identified a new finance director, Dave Benson (the group financial controller) acted as the interim finance director and attended all Board meetings since (and including) April 2014.

In accordance with the requirements of the Code, each of the current directors will offer himself/herself for re-election at the annual general meeting in November 2014. Following the performance evaluations of each of the non-executive directors seeking re-election, it is confirmed that the performance of each of these individuals continues to be effective and demonstrates commitment to the role. As it is the first annual general meeting since her appointment, a resolution will be proposed to elect Kirsty Bashforth as a director. Beverley Dew will not have joined the Group by the date of the annual general meeting in November 2014. However, a resolution to elect him as a director will be proposed at the 2015 annual general meeting.

All directors may serve on a number of other boards, provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company and that they obtain the agreement of the chairman to the appointment before acceptance. The major commitments of the executive and non-executive directors are outlined in their biographies on pages 54 and 55. The Nomination Committee remains satisfied that all non-executive directors have sufficient time to meet their commitments to the Company and was also satisfied that, during the year, the chairman's other commitments did not interfere with the day-to-day performance of his duties to the Company.

Roles

Summaries of the roles of the chairman, the chief executive and the senior independent non-executive director are as follows:

Chairman – Phil White

- Is responsible for the Board's effectiveness
- Sets the agenda for Board meetings, ensuring that the directors receive accurate, timely and clear information
- Facilitates the effective contribution of the non-executive directors
- Is responsible for effective communication with shareholders
- Ensures that the directors continually update their skills and knowledge, and familiarity with the Group, in order to fulfil their roles.

Chief executive – Haydn Mursell

- Is responsible for the operational management of the Group
- Is accountable to the Board for the implementation of the Group's strategy
- Meets regularly with other members of senior management, focusing on a variety of matters, including strategy, significant operational issues, succession planning and other material issues facing the Group.

Senior independent non-executive director – Richard Bailey

- Acts as chairman of the Board if the chairman is conflicted
- Acts as a conduit to the Board for the communication of shareholder concerns if other channels of communication are not appropriate
- Ensures that the chairman is provided with effective feedback on his performance.

Board meetings

Details of the number of meetings of the Board and its committees held during the year, and attendance of directors at those meetings, are set out below. Outside the formal schedule of meetings, the non-executive directors met without the executive directors during the year. Meetings are normally held in Tempsford Hall, London and, when appropriate, at different regional locations and sites.

The meeting agenda for Board meetings focused on key priorities for the Group, including:

- The Group's strategy and budgets;
- The Group's annual and interim financial statements (taking into account the views of the Risk Management and Audit Committee);
- The efficiency of the Group's operating structure and cost base;
- The implications of prevailing economic conditions and the appropriate strategy relating to them;
- Potential acquisitions and disposals;
- The integration of May Gurney;
- Material operational issues and opportunities;
- Health and safety issues;
- The Group's pension schemes;
- Material human resources issues affecting the Group, including succession planning and diversity both at Board level and throughout the Group; and
- The Group's strategy with respect to disputes or proceedings (including the issues relating to the Castlepoint shopping centre car park, Bournemouth) or issues otherwise potentially adversely affecting the Group's reputation.

Senior executives are regularly invited to attend meetings for specific items.

Responsibility and delegation

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

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

Board committees

The Board has delegated certain responsibilities to its committees. The terms of reference for each committee are available on the Company's website: http://www.kier.co.uk.

The current membership of each Board committee is as follows:

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

● Denotes the chair of the relevant committee.

Board and committee meeting attendance

Board and committee attendance during the year was as follows:

	Board (11)	Risk Management and Audit (4)	Remuneration (3)	Nomination (3)	Safety, Health and Environment (4)
Richard Bailey	11	4	3	3	–
Steve Bowcott	11	–	–	–	–
Chris Geoghegan[1]	5	2	1	–	–
Amanda Mellor	11	4	3	3	4
Haydn Mursell	11	–	–	–	–
Paul Sheffield[2]	7	–	–	–	–
Phil White	11	–	3	3	–
Nick Winser	11	4	3	3	4

1 Retired from the Board with effect from 21 February 2014. He attended all Board meetings and those of the committees of which he was a member up to (and including) the December 2013 meetings.
2 Retired from the Board with effect from 30 June 2014. He attended all Board meetings up to (and including) the March 2014 meeting.

The principal activities of each of these committees during the year are set out in their respective reports on pages 60 to 85 (inclusive). Executive directors also attend meetings of the committees when required by the chair of the relevant committee to do so.

Professional advice and Board support

All directors have access to the advice and services of the company secretary and the directors are also able to seek independent professional advice, if necessary, at the Company's expense. Training is available for new directors and subsequently as is considered necessary.

Induction

On appointment, each director takes part in an induction programme, during which (s)he:

- Receives relevant information relating to the Group;
- Meets members of senior management below Board level;
- Meets representatives of the Company's key advisers;
- Receives information about the role of the Board and matters reserved for its terms of reference and membership of Board committees and the powers delegated to these committees;
- Is advised of the legal and other duties and obligations of a director of a listed company; and
- Visits key sites and locations within the Group.

Kirsty Bashforth was appointed to the Board with effect from 1 September 2014. Kirsty's induction, which was organised by the company secretary, has included each of the elements set out above.

Board performance evaluation

During the year, an external evaluation of the Board's performance, the performance of its individual directors and that of its committees was carried out by Independent Board Evaluation (which has no other connection with the Company).

The aim of the evaluation was to obtain the views of Board members that would:

- Provide an insight into the Board's effectiveness;
- Highlight actions required to improve its performance; and
- Establish a benchmark for measuring future progress.

The review process comprised:

- Attendance at a Board meeting and meetings of each of the Board committees;
- Formal, structured meetings with all members of the Board and the company secretary;
- Meetings with members of senior management below the Board; and
- Meetings with key advisers to the Board.

The areas covered by the evaluation included:

- Board culture;
- Time management;
- Composition of the Board;
- Processes and support;
- Governance and compliance;
- Risk management;
- Succession planning;
- Board focus, including priorities; and
- The Board's role in the development of the Group's strategy.

The evaluation process concluded that the Board had experienced a challenging year, having taken some significant decisions and, at the same time, changed its composition. Overall, the Board members felt that the Board operated effectively in terms of its culture and decision-making. However, the feedback also identified opportunities for the Board to improve its effectiveness and, during the year ending 30 June 2015, the Board plans to:

- Focus on succession planning for the senior management team;
- Continue to ensure that sufficient time is set aside to focus on strategy;
- Enhance the quality of the information provided to the Board;
- Keep the schedule of Board and committee meetings under review to ensure that the Board continues to develop its knowledge of the business; and
- Strengthen the resources available to support the Board.

Relations with shareholders

The Company regularly communicates to and meets investors, investment analysts and brokers, delivering detailed presentations when it releases its annual and interim results and its interim management statements. These assist the Board to understand the views of major shareholders about the Group's performance and its strategic objectives. Independent feedback is also provided to the Board by analysts and institutional shareholders.

The Board invites investors, brokers and analysts to visit the Group's projects to demonstrate the scope and scale of its activities and to more formal 'investor days'. These site visits also include a series of presentations by members of the Board and members of senior management about the Group's operations.

The Board uses the annual general meeting as an opportunity to communicate directly with shareholders. The chairman of the Board also meets regularly with individual shareholders to obtain their views on a variety of matters, as does the chair of the Remuneration Committee in relation to remuneration matters.

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

Nomination Committee report

Phil White — Committee Chair

Dear shareholders,

The principal purpose of the Nomination Committee ('the Committee') is to lead the process for the appointment of new directors to the Board (whether executive or non-executive), ensuring that the Board has an appropriate balance of skills, experience, independence and knowledge. In particular, the Committee is responsible for Board succession in order to ensure that the composition of the Board is appropriate to manage future growth.

The Committee oversaw a number of changes to the Board during 2014 and its role in relation to each of these changes is set out below. The appointments of both Haydn Mursell as chief executive and Kirsty Bashforth as a non-executive director illustrate the Board's commitment to planning succession and diversity.

One of the key areas of focus for the financial year ending 30 June 2015 will be to continue to work with the executive management on succession planning, ensuring that the future leaders of the business are identified and developed.

Composition

The members of the Committee are:

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

At the invitation of the Committee, any other director or other person may attend meetings of the Committee. The secretary of the Committee is the company secretary. The Committee met formally three times in 2014.

Role

The role of the Committee includes:

- Regularly reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes;
- Identifying, reviewing and recommending candidates to the Board; and
- Considering succession planning for the Board and other senior executives, taking into account the challenges and opportunities facing the Group and the skills and expertise required by the Board in the future.

Chief executive succession

The major decision taken by the Committee during the year related to the chief executive's succession.

The Committee assessed the skills, competencies and qualities required for the position and JCA Group, which is a signatory to the Voluntary Code of Conduct for Executive Search Firms, was engaged to undertake the search to identify potential candidates. JCA Group has no other connection with the Group. The Committee assessed and compared the merits of the candidates, before recommending the appointment of Haydn Mursell to the Board. When making its recommendation, the Committee noted that Haydn was well-regarded by key stakeholders (in particular, shareholders and employees) and had gained significant experience of the Group's operations since joining in 2010, having assumed operational responsibility for the property division in June 2013.

Finance director

The Committee also engaged JCA Group to identify a finance director following Haydn's appointment as chief executive. Having interviewed and assessed a number of internal and external candidates, the Committee recommended to the Board that Beverley Dew should be appointed to the role. The Committee was impressed, in particular, with Beverley's recent experience of operating within the construction, services and residential sectors. The Committee was of the opinion that he would work well with the other members of the Board and would provide appropriate challenge to the other executive directors and support to the Board on financial and other matters affecting the Group.

Changes to non-executive roles

Following the retirement of Chris Geoghegan from the Board in February 2014, the Committee recommended that the Board should make the following changes to the roles of the non-executive directors:

- Richard Bailey became the senior independent non-executive director, in addition to his existing role as the chair of the Risk Management and Audit Committee;
- Amanda Mellor became the chair of the Remuneration Committee; and
- I took on the role of chair of the Nomination Committee.

The Committee was of the view that each of these individuals had recent and relevant experience for their new roles.

Appointment of non-executive director

Following Chris Geoghegan's retirement from the Board, the Committee considered the overall composition of the Board. The Committee agreed that the Board needed to appoint a non-executive director so as to ensure an appropriate balance between the number of executive and non-executive directors, in terms of their respective skills, experience, independence and knowledge.

When considering the required skills and experience of the new non-executive director, the Committee focused on the recent significant change in the business and decided to appoint an individual with experience in organisational design. As Head of Organisational Effectiveness at BP plc, Kirsty Bashforth has recent and relevant experience in this area and is highly regarded within the organisation, having worked closely with members of BP's senior management over a number of years in a variety of different roles. A brief biography setting out Kirsty's experience is set out on page 54. Having identified its requirements, and on the basis of its own, internal process (which included taking references from senior and experienced sources), the Committee did not consider it necessary to use an external search consultancy or advertising in relation to the appointment.

The Committee welcomes the introduction of provisions in the Code which require the consideration of diversity at board level. However, the Committee does not consider that the setting of targets is necessarily in the best interests of the Group and, instead, prefers to consider all aspects of diversity (including gender) when assessing the composition of the Board and any future appointments. The range of skills and experience which the last two non-executive directors to have been appointed, Kirsty Bashforth and Amanda Mellor, bring to the Board clearly demonstrate the Committee's commitment to diversity.

Priorities for 2015

The priorities for the Committee during 2015 will include:

- Ensuring that the results of the 2014 Board performance evaluation process are implemented satisfactorily;
- Overseeing the completion of Kirsty Bashforth's induction;
- Ensuring that, upon arrival, Beverley Dew receives an appropriate induction; and
- Senior management succession planning to establish the internal pipeline for potential Board members, ensuring that the future leaders of the Group are identified.

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

Phil White
Chair of the Nomination Committee

Safety, Health and Environment Committee report

Nick Winser — Committee Chair

Dear shareholders,

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

During the year, the Committee has continued to focus on assisting management to drive the continuous improvement of SHE practices throughout the Group. At a strategic level, the principal focus has been on integrating May Gurney's culture, policies and procedures with respect to SHE matters. Further details on the Committee's activities during the year are set out below.

Composition

The members of the Committee are:

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

The executive directors and the health and safety director are invited, and expected, to attend meetings, unless they are notified to the contrary. The secretary of the Committee is the company secretary. The Committee met formally four times in 2014.

Role

The role of the Committee includes:

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

Principal activities in 2014

Kier's accident incidence rate ('AIR') decreased by 26% since 30 June 2013 and May Gurney's AIR also decreased significantly, by 43%, since the acquisition of the business in July 2013. However, despite the overall improvement in the Group's AIR, two fatalities occurred on sites operated by Kier (in joint venture), in Hong Kong and at the Holborn site of the Crossrail project. The Committee's focus was to ensure that the investigations relating to the incidents were appropriately and thoroughly conducted, the business co-operated with all key stakeholders (including relatives, joint venture partners, clients and regulatory bodies), remedial actions were taken promptly and that the learning points from the incidents were appropriately communicated across the Group and implemented in its safety procedures.

During the year, other areas of focus for the Committee included:

- Ensuring the effective integration of May Gurney's SHE policies and procedures within those previously used by Kier to ensure a consistency of approach across the Group;
- Ensuring that management's responses to regulatory investigations by the Health and Safety Executive and the Environment Agency into incidents on the Group's sites were appropriate;
- Ensuring that management closed-out any remedial actions after the reporting of 'high potential' incidents; and
- Assisting management to continue to promote the benefits of, and encourage, the reporting of 'high potential' incidents and to ensure the communication of the learning points from such incidents across the Group.

Priorities for 2015

The priorities for the Committee in 2015 will include:

- Providing oversight of, and support to management in relation to, the launch of a re-branded set of Group-wide SHE policies and procedures;
- Working with management to ensure an appropriate level of senior leadership visibility on sites;
- Challenging management to continue to reduce the Group's AIR; and
- Assisting management in the appointment of a new Group SHE director, following the departure of the previous director in August 2014.

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

Nick Winser
Chair of the Safety, Health and Environment Committee

Risk Management and Audit Committee report

Richard Bailey — Committee Chair

Dear shareholders,

The Risk Management and Audit Committee ('the Committee') supports the Board in maintaining sound risk management and internal control procedures. The Committee's responsibility is to ensure that appropriate corporate reporting, risk management and internal control systems are applied throughout the Group.

The Committee follows a defined programme of work and review to coincide with key events in the reporting year. The Committee reports formally and regularly to the Board on its work.

During the year, the Committee continued to: examine closely the integrity of the Group's financial statements to ensure that they were prepared to the highest standards, provide the Board with periodic reviews of the effectiveness of the Group's risk management and internal control systems, scrutinise the work of the internal auditor, having previously approved the programme of audit work, and supervise the resolution of key issues arising from this work.

Composition

The members of the Committee are:

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

Richard Bailey, a chartered accountant and chairman of Rothschild's regional business, is considered by the Board to have recent and relevant financial experience.

The finance director and the director responsible for internal audit also attend meetings. The chair of the Board is invited to attend the Committee meetings. The PricewaterhouseCoopers LLP ('PwC') internal audit representative and the executive directors also attend when it is considered necessary or relevant for them to do so.

The external audit partner from KPMG attended all of the meetings during the year and often met the chair of the Committee without management being present.

The secretary of the Committee is the company secretary. The Committee met formally four times in 2014.

Role

The role of the Committee includes:

- Examining the integrity of the Group's financial statements and challenging significant financial reporting judgements and decisions;
- Reviewing the adequacy and effectiveness of the Group's internal control and risk management systems;
- Reviewing the adequacy of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible misdemeanours – i.e. 'whistle-blowing';

Principal activities in 2014

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

	Sept	Dec	Feb	June
Financial reporting				
Full-year results and announcements	X			
Half-year results and announcements			X	
Going concern	X		X	
Tax report	X		X	
External audit				
General update	X		X	X
Management representation letter	X			
Evaluation of external audit	X			
Recommendation of re-appointment	X			
Non-audit fees	X		X	
External audit plan			X	X
Internal audit				
General update	X	X	X	X
Evaluation of internal audit				X
Internal audit plan				X
Other				
Risk management (including 'whistle-blowing')		X		X
Compliance with corporate governance requirements (including 'fair, balanced, understandable' requirement)	X		X	X

- Reviewing the Group's procedures for detecting fraud;
- Appraising the effectiveness of the Group's internal audit function, setting the topics to be covered each year and reviewing the results of the work; and
- Testing the independence and objectivity of the external auditor (in accordance with the requirements of the Code).

Risk management and internal controls

The nature of the Group's work and the business environment in which it operates are inherently risky. However, the Committee recognises that the success of the Group's business strategy is closely related to its ability to identify and manage risk effectively. Risk is managed at all levels throughout the Group by identifying key risks and assessing the effectiveness of controls to mitigate them.

The Committee regularly reviews the effectiveness of the Group's internal controls and risk management procedures. These serve to mitigate, not eliminate, risk. This year, management conducted a comprehensive review of risk throughout the Group to identify, so far as practicable, all significant risks. Based on that work, a new risk register has been developed, which will inform future control procedures. No major risks were identified that were not already covered by the Group's control framework. Further, no material risk management or internal control failures have been identified in the application of the existing procedures that require disclosure in this report.

The Committee also reviewed the adequacy and security of the Group's 'whistle-blowing' arrangements, which exist to enable employees and contractors to raise confidentially any concerns over possible misdemeanour. The Committee considers the current arrangements to be appropriate, but will review them annually.

For further information, please see the information in the paragraphs entitled 'How the Group manages risk and assurance' and 'Risk management process'.

Internal audit

The Committee tests and reviews continually the effectiveness of the internal audit function, recognising its importance to the management of risk as well as organisational efficiency. It does so by examining the audit work conducted by PwC, reviewing the response of management to issues which are identified and overseeing the implementation of any changes deemed necessary.

The Committee considers that the internal audit function fulfilled its objectives for the year. Its findings were used by the Committee and PwC in forming the internal audit plan for the 2015 financial year.

External audit

The Board and the Committee consider the objectivity and effectiveness of the Group's auditor to be of paramount importance. At the beginning of the year, the Committee reviewed and challenged the external audit plan to ensure that KPMG, having identified potential areas of concern, significant risks and control procedures, would employ effective audit procedures to examine them. Having reviewed KPMG's performance following the implementation of these procedures, the Committee concluded that the external auditor had operated effectively.

The independence of the Group's external auditor is key. KPMG has audited the Group's financial statements for over 10 years and the Committee therefore deemed it appropriate to ask four other firms to tender for the work. Having conducted a comprehensive tender process, the Board agreed that, at the November annual general meeting, it would propose the appointment of PwC as the external auditor for the 2015 financial year. Upon appointment, PwC will cease to provide internal audit services to the Group.

Fees relating to the provision of non-audit services by the external auditor, other than routine taxation advice, must be referred to and agreed by the Committee, so that it can be satisfied that the external auditor's objectivity and independence have not been compromised, notwithstanding the provision of non-audit services in the year.

The fees paid to KPMG during the year in respect of non-audit services were £855,000 (2013: £1,177,000), of which £678,000 related to advice in connection with the Group's business-efficiency programme, £112,000 to tax advice (and providing tax-related software licences), £45,000 to the auditing of the corporate responsibility annual report, and £20,000 to assistance with respect to the audit tender process. The audit fees for the year were £843,000. The total fees for non-audit services represented approximately 101% of the audit fees paid for the year (2013: 162%). All figures exclude VAT.

Before engaging KPMG in relation to the Group's business-efficiency programme, the Board asked three firms of an appropriate size with recent and relevant experience to tender for the work. In light of the size and complexity of the Group's business and operations, and KPMG's recent and relevant experience having conducted similar exercises elsewhere in the construction sector, the Board decided that KPMG was the best equipped to conduct the exercise. Before the work began, and at the Board's request, KPMG established an appropriate ethical division between its audit team and the consultancy team which undertook the work.

As part of the audit process for the year ended 30 June 2014, KPMG confirmed that, with respect to this period, it was independent within the meaning of applicable regulatory and professional requirements. Taking this into account, and having considered the steps taken by KPMG to preserve its independence, the Committee concluded that the external auditor's independence was not compromised, notwithstanding the level of non-audit fees.

Financial statements

The Committee is responsible for reviewing the suitability of the Group's accounting policies and the appropriateness of management's estimates and judgements in preparing the financial statements. As part of its review of the Group's financial statements, the Committee considered the areas set out below under 'Significant accounting judgements'. In reaching its decision on these judgements, the Committee considered the accuracy of historical forecasts and external audit reports on the positions taken by management and discussed these reports with the external auditor and management. On the basis of these discussions, and drawing on its own recent and relevant financial experience, the Committee concluded that management's judgement had been reasonable.

Significant accounting judgements

During the year, the Committee reviewed the following significant issues:

- The distinction between underlying and non-underlying items and their presentation, including costs relating to the acquisition of May Gurney and business restructuring and transformation costs following this acquisition. See note 4 to the consolidated financial statements;

- The assumptions and judgements made by management in relation to the accounting for significant contracts, such as the Castlepoint shopping centre car park;
- The extent to which the preparation of the financial statements comply with Group revenue and profit recognition policies and, in particular, the measurement of profits derived from long-term contracts at their various stages of completion, as well as the level of liabilities in respect of completed contracts. See note 1(a) to the consolidated financial statements under 'Accounting estimates and judgements';
- The assumptions underlying the calculation of defined benefit pension liabilities. See note 8 to the consolidated financial statements;
- The work undertaken by management to support the going concern statement, taking into account funding available to the Group (£315m and US$28m committed borrowing facilities) and the Group's compliance with the financial covenants contained in its principal facility agreements;
- The assumptions and judgements underlying the valuation of property land and work in progress. See note 1(b) to the consolidated financial statements under 'Accounting estimates and judgements';
- The fair value valuation of intangible assets, provisions and liabilities in respect of the May Gurney acquisition. See note 1(c) (under 'Accounting estimates and judgements') and note 30(b) to the consolidated financial statements; and
- The recoverability of goodwill in respect of the May Gurney acquisition. See note 1(g) (under 'Accounting estimates and judgements') and note 12 to the consolidated financial statements.

Fair, balanced and understandable

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

The steps taken by the Committee, or on its behalf, to provide this advice to the Board included:

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

How the Group manages risk and assurance

The Board is responsible for the Group's systems of risk management and internal control. It is also responsible for the Group risk management and assurance standard which sets out the mechanisms of control and the reporting structure. Key risks are regularly examined and the action plans to mitigate the risks reviewed.

The Board has delegated to the Committee responsibility for reviewing the effectiveness of the Group's systems of internal control, including those established to identify, assess, manage and monitor risk and to provide assurance. The risks and the controls designed to mitigate them are continuously monitored and a report of the key risks and an assessment of these controls is reviewed by the Committee twice a year. The last report was prepared in March 2014 and reviewed at the June 2014 Committee meeting.

Key actions which the Group has taken to mitigate risk include:

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

Roles and responsibilities

A summary of the roles and responsibilities of the Board, its committees and management with respect to risk management is set out below:

Board/Committee etc.	Responsibilities	Activities
Board	• Responsible for the Group's system of risk management and internal control • Determines the Group's appetite for risk in achieving its strategic objectives	• Issues and reviews the Group risk management and assurance standards • Reviews the Group's key risks and how they are mitigated
Risk Management and Audit Committee	• Regularly reviews the effectiveness of Group internal controls, including systems to identify, assess, manage and monitor risks	• Receives regular reports on internal and external audit and other assurance activity • Annually assesses the effectiveness of risk management and internal controls
Risk Review Committee	• Reviews risks identified during tenders	• Reviews proposals to mitigate risks which have been identified

Risk Management and Audit Committee report
continued

Board/Committee etc.	Responsibilities	Activities
Investment Committee	• Reviews and approves investment decisions with the aim of optimising the allocation of available capital	• Reviews and approves investment/ divestment proposals
Executive management team	• Strategic leadership • Responsible for ensuring the Group's risk management policy is implemented and embedded • Ensures appropriate actions are taken to manage key risks	• Strategic and annual planning process • Reviews risk management processes and assurance activity • Monthly/quarterly finance and performance reviews
Divisional management	• Responsible for risk management and internal controls within their division • Ensures that business units' responsibilities are discharged	• Reviews the division's key risks and mitigations • Reviews results of assurance activity • Escalates key risks to the executive management team and the Board
Business unit management	• Maintains an effective system of risk management and internal control within their business unit and projects	• Maintains and regularly reviews project and business risk registers, including the effectiveness of mitigations

The Group has clear policies and procedures (for example, those contained in the Group Finance Manual) to ensure conformity, reliability and accuracy in financial reporting, including the process for preparing consolidated accounts.

Risk management process

The Group's risk management and assurance process identifies and addresses the key risks in the business, including those identified as potentially affecting the delivery of the Group's strategy. Significant risks are reviewed annually by the Board and the executive management team to identify any new risks which have arisen as a result of changes within the Group or the markets within which it operates. On a quarterly basis, the senior management team of each operating business reviews its risk registers and analyses the likelihood of each risk occurring and its potential impact on the business to estimate the gross risk.

After developing and assessing processes designed to mitigate the gross risk, the business assesses the likelihood and impact of each risk to estimate the net risk. Where the net risk is deemed to be too large or existing mitigations are recognised as inadequate, remedial action plans are agreed and implemented. These risk registers are consolidated quarterly to provide a view of the principal risks affecting the Group. The key assurance activities carried out across the Group (for example, internal audit review) are determined after the risk consolidation process has been completed. The Committee oversees the risk management process, from identification through to assurance, and reviews it every six months. The process is also reviewed by the executive management team every three months.

A summary of the Group's risk management process is set out below:

The Committee concluded that the Group maintained sound risk management and internal control systems throughout the year ended 30 June 2014.

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

Richard Bailey
Chair of the Risk Management and Audit Committee

Directors' remuneration report

Amanda Mellor — Chair of the Remuneration Committee

Dear shareholders,

I am pleased to present the directors' remuneration report for 2014. This report is divided into two sections, the policy report and the annual report on remuneration, and, in accordance with the new regulations relating to the reporting of executive remuneration, shareholders will be asked to vote separately on these reports at our annual general meeting in November 2014.

The remuneration framework at Kier is designed to provide a clear link between executive remuneration and the Group's performance and the delivery of its strategy, while balancing the interests of shareholders, management and other stakeholders.

The Remuneration Committee consulted with shareholders and shareholder representative bodies on the remuneration policy for 2014 and its implementation and was grateful for their constructive engagement throughout this process. The Committee has endeavoured to reflect, and balance, the range of feedback received in both the remuneration policy and its application for the 2015 financial year.

Strategic alignment of remuneration policy

The Group's strategy is to generate sustainable growth in its chosen markets and to deliver increasing levels of profit for its shareholders, together with robust and reliable cash flows. The Committee's approach to executive remuneration seeks to motivate and reward delivery of this strategy and year-on-year performance.

The Kier executive remuneration framework comprises base salary, benefits, cash and shares awarded under an annual bonus scheme and shares awarded under a long-term incentive plan ('the LTIP'). Incentive schemes are performance-related and are assessed against a range of financial and operational targets, measured over the short, medium and long term. Profit and cash are the two key measures of financial performance for the annual bonus. Incentive schemes are subject to a three-year deferral or performance period in order to encourage retention and to align the interests of directors with those of shareholders. Executive directors are also encouraged to accumulate a shareholding of at least two years' base salary over a period of up to five years – please see pages 72 and 81 for further details.

Key remuneration issues during the year

- With effect from 1 July 2014, the average salary increase across the Group was 5%, reflecting the high level of salary inflation across the market after several difficult years;
- Following the acquisition of May Gurney and a restructuring of the Board in June 2013, Ian Lawson left Kier in September 2013. Details of Ian's termination arrangements are set out on page 80;
- At the same time, Steve Bowcott was appointed chief operating officer with responsibility for both the Construction and Services divisions and Haydn Mursell assumed operational responsibility for the Property division, in addition to his responsibilities as finance director. As outlined in our remuneration report last year, the Committee consulted extensively with shareholders during the summer of 2013 on the remuneration arrangements to reflect the enhanced roles for Haydn and Steve. Following this consultation, revised remuneration arrangements were put in place, phased over the 2014 and 2015 financial years and subject to continued satisfactory performance. These included increases in base pay, in addition to the average annual pay review across the Group, and an increase in awards under the LTIP from 100% to 150% of base salary for 2014 and 2015. The additional 50% opportunity in the 2014 financial year related to a specific return on capital employed (ROCE) target for May Gurney, in addition to the standard measures of earnings per share ('EPS') and total shareholder return ('TSR'), which have been used since 2010. This reflected feedback from shareholders who required a focus for the successful integration of the newly-acquired business, to ensure that the expected synergies in the 2016 financial year would be delivered. The maximum annual bonus opportunity remained at 100% of base salary;
- In February 2014, the Company announced that Paul Sheffield would be standing down as chief executive from 30 June 2014 and that Haydn Mursell would succeed Paul as chief executive from that date. Details of Paul's termination arrangements are set out on page 80; details of Haydn's remuneration in his new role are set out on page 84. In considering the revised remuneration arrangements for Haydn, the Committee took into account his experience, the complexity of the role, market comparators and the 'fair value' of his overall remuneration. Having taken into account these factors, the Committee considered it appropriate to appoint Haydn on the same terms as the outgoing chief executive and that it was not necessary to require him to serve a probationary period. The Committee believes

that his overall remuneration is competitive, but is also slightly below market median;

- The Committee believes in pay for performance and ensures that targets are stretching and linked to those measures necessary to ensure the long-term success of the Group. Annual bonus measures are primarily financial, but also include a number of non-financial measures in order to ensure a balanced view of the Group's performance. This year, therefore, while good progress was made against both profit and cash targets, the Committee used its discretion not to permit a bonus payout with respect to the health and safety targets as a result of fatalities having occurred on Kier's sites during the year. The Committee also decided not to pay the discretionary element of the bonus because of these safety issues; and
- LTIP awards granted in 2011 were measured during the three-year period ended 30 June 2014 against challenging EPS and TSR targets. As a result of performance against these targets, the executive directors will receive 32.7% of the award when it vests in November 2014.

Remuneration arrangements for the current financial year

To ensure that the remuneration arrangements remain aligned with the Company's strategic priorities and stakeholders' views, the Committee proposes minor amendments to the executive remuneration arrangements for the current financial year. These are:

- Following discussions with shareholders, and having reviewed the LTIP performance measures to ensure that they remain appropriate, the Committee has decided to revert to the measures used since 2010 for future LTIP awards, namely EPS and TSR. The performance period for the LTIP awards granted in October 2013 ends on 30 June 2016, which is also the end of the period in which the full annual run rate of synergies is expected to have been delivered from the acquisition of May Gurney. As a result, the Committee considered that the May Gurney ROCE element would no longer be a relevant performance measure for future LTIP awards; and
- The focus on performance has been further emphasised by the introduction of a 'malus' provision for LTIP awards granted from 2014, providing the Committee with discretion to reduce or cancel unvested awards in circumstances which it considers to be appropriate, including, for example, a material mis-statement of the Group's audited results.

The Committee decided that the awards under the annual bonus plan will remain at 100% of base salary, with one-third of any award being deferred into shares for three years.

Conclusion

I hope that you will find this new style of report helpful. The Committee has sought to increase the levels of disclosure and transparency with respect to executive remuneration at Kier and to share with shareholders how it seeks to balance various considerations and interests in a fair way for the long-term success of the Group. Linking pay to the Group's performance and reflecting the views of shareholders are fundamental to the remit of the Committee. The Committee will, therefore, continue to engage with shareholders to ensure that the Group's remuneration framework and targets remain appropriate going forward.

Amanda Mellor
Chair of the Remuneration Committee

Compliance statement

This report complies with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules and applies the Main Principles relating to remuneration which are set out in The UK Code on Corporate Governance.

The information contained in the following parts of this report have been audited: the table containing the single total figure of remuneration for directors and accompanying notes on page 77, pension entitlements on page 79, incentive awards made during the year on pages 79 and 80, payments to past directors on page 80, payments for loss of office on page 80 and the statement of directors' shareholdings and share interests on page 81.

The remuneration policy report

This section of the report sets out the policy for the directors' remuneration at Kier, which shareholders are asked to approve at the 2014 annual general meeting. The policy will take effect from the date of that meeting (subject to shareholder approval).

Policy table

Details of the Group's policy for each element of an executive director's remuneration are set out in the table below.

Element and link to strategy	Operation	Opportunity	Performance measures
Base salary To attract and retain executive directors of the calibre required to deliver the Group's strategy.	Salaries are reviewed annually by reference to an individual's experience, performance and role within the Group, the external market (including FTSE companies of a similar size and sector peers) and any increase awarded to the wider employee population. Any increase is typically effective from 1 July.	Any increase will typically be in line with those awarded to the wider employee population. The Committee has discretion to award higher increases in circumstances that it considers appropriate, such as a material change in the complexity of the business or an individual's responsibility. Details of salary changes will be disclosed in the annual report.	Continued strong performance.
Benefits To provide benefits which are competitive with the market.	Benefits are reviewed from time to time and typically include, but are not limited to, a company car or car allowance, private health insurance and life assurance. In certain circumstances, the Committee may also approve the provision of additional benefits or allowances – for example, the relocation of an executive director to perform his or her role.	Benefits are set at a level which the Committee considers appropriate in light of the market and an individual's circumstances.	None.
Save As You Earn (SAYE) Scheme To encourage ownership of the Company's shares.	An HMRC-approved scheme allowing all employees, including executive directors, to save up to the maximum limit specified by HMRC rules. Options are granted at up to a 20% discount.	The maximum amount that may be saved is the limit prescribed by HMRC (or such other lower limit as determined by the Committee) at the time employees are invited to participate in the scheme. Typically, employees are invited to participate on an annual basis.	None.
All Employee Share Ownership Plan (AESOP) To encourage ownership of the Company's shares.	An HMRC-approved scheme which is open to all UK tax resident employees of participating Group companies. Executive directors are eligible to participate. The plan allows employees to purchase shares out of pre-tax income. The Company may match shares purchased with an award of free shares. Matching shares may be forfeited if employees leave within three years of their award, in accordance with the AESOP rules. The plan trustee can reinvest cash dividends to acquire further shares on behalf of participants.	Participants can purchase shares up to the prevailing limit approved by HMRC (or such other lower limit as determined by the Committee) at the time they are invited to participate. The Company currently offers to match purchases made through the plan at the rate of one free share for every two shares purchased.	None.

Element and link to strategy	Operation	Opportunity	Performance measures
Pension To provide a retirement benefit which is competitive with the market.	Executive directors participate in a defined contribution scheme.	For current executive directors, the maximum employer contribution is 20% of pensionable salary. Executive directors may elect to receive all or part of the employer contribution as a taxable cash supplement.	None.
Annual bonus To reward the delivery of near-term performance targets and business strategy.	The Company operates a discretionary bonus scheme. Performance measures and targets are set by the Committee at the start of the year. Payments are based on an assessment of performance at the end of the year. One-third of any award is deferred for three years (subject to early release for 'good leavers') and satisfied in Kier Group plc shares. Past awards of deferred shares are subject to forfeiture if an individual's employment is terminated in circumstances of gross misconduct and/or justifying summary dismissal and/or the Group's profit before tax or cash position for the relevant year is found to have been mis-stated. Awards of deferred shares made from 2014 will include a revised 'malus' provision. See 'Malus' on page 72. Dividend payments accrue on deferred bonus shares over the deferral period.	The current maximum potential bonus is 100% of base salary. 'Threshold' performance, for which an element of bonus may become payable under each component of the annual bonus, is set by the Committee at the start of each financial year. The level of bonus for achieving threshold performance varies by performance measure, and may vary for a measure from year to year, to ensure that it is aligned with the Committee's assessment of the degree of difficulty (or 'stretch') in achieving it.	The performance measures and targets for the financial year ending 30 June 2015 are profit (55%), cash (25%), health and safety (10%) and personal performance (10%). The Committee has discretion to determine the measures and their relative weightings each year. The weighting towards non-financial measures will be no higher than 25% of the maximum potential bonus. The Committee has discretion to adjust bonus payments to ensure that they accurately reflect business performance over the performance period and are fair to shareholders as well as recipients. Actual targets for each performance measure (and performance against each of these targets), and any use by the Committee of its discretion with respect to bonus payments, will be disclosed in the annual report immediately following the end of the performance period.

Element and link to strategy	Operation	Opportunity	Performance measures
Long-term Incentive Plan (LTIP) To reward the sustained strong performance by the Group over three years.	Awards are made annually and vest, subject to the achievement of performance conditions, at the end of a three-year performance period. At the start of each performance period, the Committee sets performance targets which it considers to be appropriately stretching. Awards are satisfied in the form of a deferred, contingent right to acquire shares in the Company, at no cost to the individual. LTIP awards granted from 2014 will include a 'malus' provision. See 'Malus' on page 72. If an event or series of events occur as a result of which the Committee deems it fair that the performance conditions should be waived or modified, the Committee has discretion during the vesting period to waive or modify them. Any modified performance conditions must be no more difficult to satisfy than the original performance conditions were when first set. Any use of Committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant annual report.	The maximum award under the rules of the plan is 200% of base salary. The Committee may grant awards of up to the maximum permitted under the LTIP rules when it considers it appropriate to do so. The reasons for an award in excess of 150% of salary will be disclosed in the relevant annual report. On achieving the threshold performance level for each element of the award, 25% of the relevant element of the award will vest. Vesting is on a straight-line basis between threshold and maximum levels of performance.	LTIP awards will be awarded in the financial year ending 30 June 2015 based on an equal weighting of EPS and TSR performance. EPS performance is measured by compound cumulative growth over the performance period. TSR outperformance is measured on a multiplicative basis relative to a revenue-weighted index based on the FTSE ASX Construction and FTSE ASX Support Services indices. If TSR outperformance is used in future award cycles, the revenue weightings will be fixed based on the Group's approximate revenue mix in the year prior to grant. The Committee retains discretion to supplement EPS and TSR with additional performance measures to ensure that the awards are always linked to sustained business performance. No measure will carry a weighting of less than 25%. Actual performance measures and weightings will be disclosed in the annual report immediately following the granting of an award.

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

Payments from outstanding awards

The Company will honour any commitment entered into, and executive directors will be eligible to receive payment from any award made, prior to the approval and introduction of this remuneration policy, which is expected to be after the annual general meeting on 13 November 2014.

Notes to the policy table

'Malus'

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

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

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

Executive director shareholding guidelines

The Committee encourages executive directors to accumulate a shareholding in the Company of at least two years' base salary over a period of up to five years. Executive directors are encouraged to retain any shares allocated to them as part of the annual bonus arrangements and 50% of the shares allocated to them upon the vesting of LTIP awards (net of tax) until they reach this level of shareholding.

Selection of performance measures and approach to setting targets

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

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

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

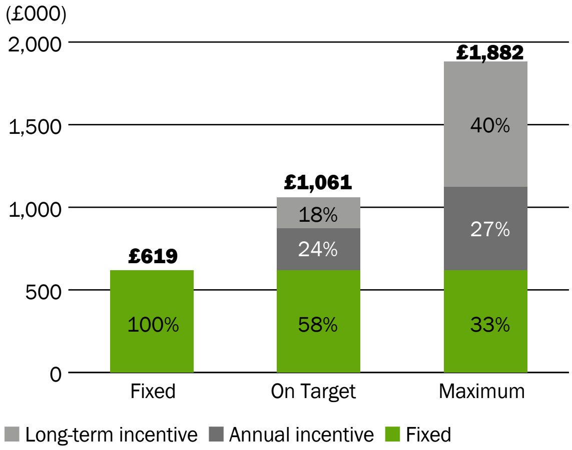
Differences from remuneration policy for other employees

Kier's approach to setting annual remuneration is broadly consistent across the Group. Consideration is given to the experience, performance and responsibilities of individuals as well as publicly available external benchmarking data, to the extent considered necessary or appropriate. Certain grades of senior employees are eligible to participate in an annual bonus scheme with similar performance measures to those used for the executive directors. Maximum opportunities and specific performance measures vary by seniority, with business-specific measures applied where appropriate. Senior managers (currently, approximately 200 individuals) are also eligible to participate in the LTIP. The performance measures for each LTIP award cycle are typically the same for all participants (although the rules of the LTIP permit the Committee to grant LTIP awards using different performance measures). Award sizes vary according to seniority and responsibility.

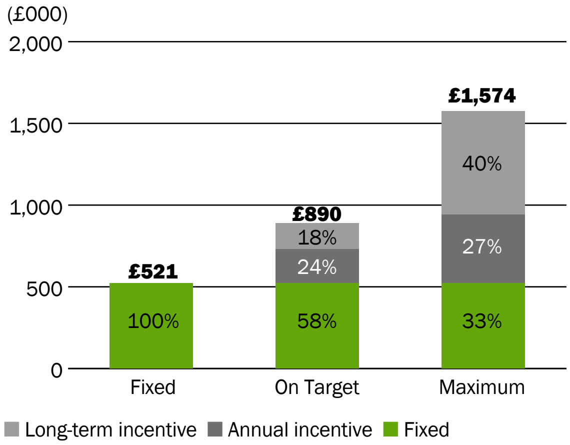
Illustration of application of remuneration policy

The charts below set out the minimum (i.e. 'fixed') remuneration receivable by each executive director as at the date of this report, as well as the potential remuneration for 'on-target' and 'maximum' performance, as a result of the application of the remuneration policy set out above in the year ending 30 June 2015.

Haydn Mursell



Steve Bowcott



'Fixed' remuneration comprises base salary, pension and benefits. The 'on-target' remuneration stated assumes an annual bonus payment of 50% of the maximum opportunity and a 'threshold' LTIP vesting (25% of the maximum opportunity). The 'maximum' remuneration stated assumes maximum performance is achieved and therefore awards under the annual bonus and the LTIP pay out or vest at their normal maximum level of 100% and 150% of salary, respectively. No share price appreciation is assumed for LTIP awards. Performance measures for the annual bonus and the LTIP awards relate to one financial year and three financial years, respectively.

Approach to remuneration on recruitment

External appointment

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

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

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

Directors' remuneration report
continued

The remuneration of the new finance director, Beverley Dew, will be within the terms of the policy on external recruitment and disclosed in next year's annual report on remuneration.

Internal promotion

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

Service contracts

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

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

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

Payments for loss of office

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

Component	Approach
Annual bonus	Individuals who are considered to be 'good leavers' may be considered for a bonus in relation to the year in which their active employment ceases. Any payment will normally be pro rated for length of service and performance during the year. However, the Committee retains the discretion to review the performance of the individual and the Group in general and, having done so, determine that a different level of bonus payment would be appropriate. Deferred bonus shares will, typically, be released to the individual upon cessation of office, unless the 'malus' provision applies.
LTIP	If an executive director's employment ceases for reasons of death, ill-health, injury, disability, retirement with the agreement of the Company or his employing company ceasing to be a member of the Group or such other circumstances approved by the Committee, outstanding awards are retained. The Committee may also (at its discretion) permit unvested LTIP awards to vest on an accelerated basis or alternatively be retained until the vesting date. Unvested LTIP awards will, subject to Committee discretion, normally be pro rated for length of service during the performance period and will, subject to performance, normally vest at the same time as all other awards in the LTIP award cycle. A 'malus' provision also applies to all LTIP awards granted from 2014. For all other leavers, outstanding LTIP awards automatically lapse, unless the Committee exercises its discretion otherwise (taking into account the factors detailed immediately following this table).
AESOP and SAYE Scheme	The executive directors are subject to the same 'leaver' provisions as all other participants, as prescribed by the rules of the relevant scheme or plan.
Other	If the Company terminates an executive director's employment by reason of redundancy, the Company will make a redundancy payment to the executive director in line with his service agreement, any applicable collective bargaining agreement and applicable law and regulation. The Company may make a contribution towards an executive director's legal fees for advice relating to a compromise or settlement agreement and may also make other payments connected to the departure – for example, for outplacement services. With respect to any such payments, the Committee will authorise what it considers to be reasonable in the circumstances.
Change of control	Deferred bonus shares will be released, any outstanding LTIP awards may vest early (subject to the Committee's discretion, having taken into account current and forecast progress against the performance condition(s), the proportion of the vesting period which has elapsed and any other factors considered by the Committee to be relevant) and the rules of the AESOP and the SAYE Scheme will apply. No payments are due under the executive directors' service agreements upon a change of control.

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

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

Consideration of employment conditions elsewhere in the Group

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

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

Directors' remuneration report
continued

Consideration of shareholder views

The views of shareholders, and guidance from shareholder representative bodies, are important to the Committee and provide the context for setting the remuneration of the executive directors. The chair of the Committee and the chairman of the Company have met with a number of the significant shareholders during the year and their views have been taken into account when preparing the remuneration policy.

The Committee will keep the remuneration policy under regular review so as to ensure that it continues to relate to the Company's long-term strategy and aligns the interests of the executive directors with those of shareholders. In addition, the Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

Non-executive director remuneration policy

General

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

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

Recruiting non-executive directors

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

Non-executive director letters of appointment

The non-executive directors do not have service contracts but have entered into letters of appointment with the Company. The letters of appointment do not include any provisions for the payment of pre-determined compensation upon termination of appointment.

The effective dates of the letters of appointment of the non-executive directors at 30 June 2014 and the applicable notice periods are as follows:

Director	Effective date	Notice period
Richard Bailey	1 October 2010	1 month
Amanda Mellor	1 December 2011	1 month
Phil White[1]	1 July 2006	1 month
Nick Winser	1 March 2009	1 month

1 Phil White assumed the role of chairman with effect from 2 January 2008.

Kirsty Bashforth became a director with effect from 1 September 2014. Her letter of appointment contains a one month notice period.

No term is included in the non-executive directors' letters of appointment. Notice may be served by either party to the letter of appointment.

The annual report on remuneration

This section of the report sets out the annual report on remuneration for the year ended 30 June 2014.

Directors' remuneration for the year ended 30 June 2014

The following table provides details of the directors' remuneration for the year ended 30 June 2014, together with their remuneration for the year ended 30 June 2013:

	Salary/fees (£000)		Bonus (£000)		Taxable benefits[1] (£000)		LTIP vesting in year (£000)		All-employee schemes (£000)		Pension[5] (£000)		Total (£000)	
	13/14	12/13	13/14	12/13	13/14	12/13	13/14[2]	12/13[3]	13/14[4]	12/13	13/14	12/13	13/14	12/13
Executive directors														
Steve Bowcott	378	343	257	167	16	16	129	130	1	–	76	69	857	725
Haydn Mursell	378	343	257	167	13	13	129	130	1	–	76	69	854	722
Paul Sheffield	481	469	327	229	15	15	180	180	–	–	96	94	1,099	987
Non-executive directors														
Richard Bailey	54	53	–	–	–	–	–	–	–	–	–	–	54	53
Chris Geoghegan[6]	37	55	–	–	–	–	–	–	–	–	–	–	37	55
Amanda Mellor	54	47	–	–	–	–	–	–	–	–	–	–	54	47
Phil White	165	162	–	–	–	–	–	–	–	–	–	–	165	162
Nick Winser	54	47	–	–	–	–	–	–	–	–	–	–	54	47
Total	1,601	1,519	841	563	44	44	438	440	2	–	248	232	3,174	2,798

1 Comprise private health insurance and a company car or a car allowance.
2 The award granted on 17 November 2011 will vest as to 32.7% on 17 November 2014. Calculated by multiplying the number of shares receivable by the relevant director (before deduction for income tax and national insurance contributions) by the average middle market quotation of a share in the capital of the Company for the three months ended 30 June 2014 of £17.00.
3 The award granted in November 2010 vested as to 31.2% on 14 November 2013, as detailed on page 61 of last year's annual report. Calculated by multiplying the number of shares receivable by the relevant director (before deduction for income tax and national insurance contributions) by the middle market quotation of a share in the capital of the Company on 14 November 2013 of £17.19. The value of these awards referred to in last year's annual report was based on the three-month average share price for the period ended 30 June 2013.
4 The value of the 44 matching shares purchased for the individual during the year under the AESOP, using an average share price of £17.13.
5 Comprises the payment of employer pension contributions and/or a cash allowance.
6 Chris Geoghegan retired from the Board with effect from 21 February 2014.

Annual bonus

During the year ended 30 June 2014, the executive directors were eligible to receive a bonus of up to 100% of base salary. Of this, a maximum of 55% was payable if the Group achieved certain profit performance targets and a maximum of 25% was payable if the Group also achieved certain cash performance targets. Of the remaining 20%, 10% was payable if health and safety performance targets (divided as to 50% for Kier performance and 50% for May Gurney performance), which are considered to be key non-financial performance measures for the Group, were achieved. The remaining 10% was payable at the discretion of the Committee (subject to an assessment of the executive director's performance).

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

The bonuses awarded in respect of the year ended 30 June 2014 represented 67.9% of the base salaries of the executive directors. Further details are provided in the following table:

				Performance level				Performance achieved (% age of base salary)		
	Weighting	Measure/ weighting		'Threshold'	'On target'	'Stretch'	Actual	Steve Bowcott	Haydn Mursell	Paul Sheffield
Financial	80%	Profit before tax (55%)	Target	<£70m	£70m	£77m	£73.1m	46.6%	46.6%	46.6%
			Payout[1]	0%	40%	55%	46.6%			
		Average month-end cash (25%)	Target	£(165)m	£(150)m	£(135)m	£(140.5)m	21.3%	21.3%	21.3%
			Payout[1]	0%	15%	25%	21.3%			
Non-financial	20%	Health & safety – Kier (5%)[2]		See note 2				–	–	–
		Health & safety – May Gurney (5%)[2]						–	–	–
		Discretionary element (10%)[3]		See note 3				–	–	–
Total								67.9%	67.9%	67.9%

1 As a percentage of maximum opportunity.
2 The health and safety performance targets related to a reduction in Kier's and May Gurney's AIR from April to June 2014, as compared to the equivalent period in 2013. Although both Kier's and May Gurney's AIR decreased significantly during the year, the Committee decided that, as a result of the fatalities which occurred during the course of the year, there would be no payout with respect to the safety element of the bonus.
3 The Committee also decided that, in light of these fatalities, none of the discretionary element of the bonus would be payable.

LTIP awards

The three-year performance period of the LTIP awards granted on 17 November 2011 ended on 30 June 2014. Further details relating to these awards are set out below.

Performance against the performance conditions of these awards was as follows:

Performance condition	Weighting	Targets	Actual performance	Level of vesting
Cumulative EPS growth	1/3	0% vesting for below 5% p.a. 25% vesting for 5% p.a. 100% vesting for 15% p.a. Straight-line vesting between these points	Below threshold	0%
TSR outperformance[1]	2/3	0% vesting for below index 25% vesting for performance in line with index 100% vesting for performance in line with index + 12% p.a. Straight-line vesting between these points	Index +3.84% p.a.	49.0%
Total				32.7%

1 Against a revenue-weighted index based 75% on the FTSE ASX Construction Index and 25% on the FTSE ASX Support Services Index (representing the Group's approximate prior year revenue mix at the date of grant).

The vesting of these awards on the third anniversary of the date of grant (i.e. 17 November 2014) will result in the allocation of the following numbers of shares to the following individuals:

Director	Maximum number of shares	Number of shares vesting	Value[1]
Steve Bowcott	23,239	7,599	£129,183
Ian Lawson[2]	18,075	5,910	£100,470
Haydn Mursell	23,239	7,599	£129,183
Paul Sheffield	32,394	10,592	£180,064

1 The value of an award is calculated by multiplying the number of vested shares by the average middle market quotation of a share in the capital of the Company for the three months ended 30 June 2014 of £17.00.
2 Ian Lawson retired from the Board with effect from 21 June 2013. The maximum number of shares receivable under his award was reduced from 27,113 to 18,075 to reflect his active service with the Group during the performance period.

'Maximum number of shares', 'number of shares vesting' and 'value' are shown prior to deductions for income tax and national insurance contributions.

Pension entitlements

Haydn Mursell and Steve Bowcott participate in the defined contribution section of the Kier Group Pension Scheme. Both receive a pension contribution of 20% of base salary, subject to the annual allowance (which reduced from £50,000 to £40,000 from 6 April 2014). The balance is paid as a cash allowance.

Paul Sheffield participated in the defined benefit section of the Kier Group Pension Scheme, although opted out of the scheme with effect from 30 June 2010 and became entitled to a deferred pension from that date. During the year, Paul Sheffield received a cash allowance of 20% of base salary in lieu of continued pension accrual. The value of his accrued deferred pension since opting out, including revaluation at 30 June 2014, was £153,000 per annum and is payable from age 62 (the normal retirement age under the scheme).

Cash allowances are subject to the usual tax and national insurance deductions which are payable by the executive director and excluded when determining annual bonus and long-term incentives.

Payments to the executive directors with respect to the Kier Group Pension Scheme during the year ended 30 June 2014 were:

Director	Pension contribution	Cash allowance	Total
Haydn Mursell	£47,500	£28,016	£75,516
Steve Bowcott	£47,500	£28,016	£75,516
Paul Sheffield	–	£96,186	£96,186

Incentive awards made during the year

The following incentive awards were made to each of the executive directors during the year ended 30 June 2014:

Award	Basis of award	Director	Face value[1]	Potential award for threshold performance	End of performance period	Vesting date	Difference between exercise price and face value	Performance measures
LTIP	150% of base salary for the year ended 30 June 2014	Steve Bowcott	£566,269	25% of face value	30 June 2016	21 October 2016	n/a	Awards are based 1/3 on three-year cumulative EPS, 1/3 on relative TSR performance and 1/3 on May Gurney ROCE. See below for details of targets
		Haydn Mursell	£566,269					
		Paul Sheffield[2]	£721,394					
Deferred shares	1/3 of the net bonus for the year ended 30 June 2013	Steve Bowcott	£29,595	n/a	n/a	28 October 2016	n/a	Continued service condition (subject to the 'malus' provision – please see the future policy table)
		Haydn Mursell	£29,595					
		Paul Sheffield	£40,466					
AESOP	Matching shares purchased in accordance with the AESOP rules[3]	Steve Bowcott	£754	n/a	n/a	n/a	n/a	Continued service condition
		Haydn Mursell	£754					
		Paul Sheffield	–					

1 For the LTIP awards, 'face value' is calculated using the middle market quotation of a share in the capital of the Company on 18 October 2013 of £17.81. The LTIP awards were granted on 21 October 2013, using the share price from the business day immediately prior to the date of grant. For the deferred share awards, 'face value' is calculated using the middle market quotation of a share in the capital of the Company on 25 October 2013 of £17.85. The deferred shares were allocated on 28 October 2013, using the share price from the business day immediately prior to the date of allocation.

2 The LTIP award granted to Paul Sheffield was reduced from 40,505 shares to 13,501 shares in accordance with the terms of his departure from office. The face value referred to is calculated using 40,505 shares. The face value of the reduced award is £240,453.

3 During the year, 44 matching shares were purchased for Steve Bowcott and Haydn Mursell under the AESOP. The face value of these shares is calculated using the average middle market quotation of a share in the capital of the Company at the dates of the purchases of £17.13.

Performance conditions (and respective weightings) and targets for the LTIP awards which were granted during the year ended 30 June 2014 are set out in the table below. The awards vest on the third anniversary of the grant date (i.e. 21 October 2016).

Performance condition	Weighting	Targets
Cumulative EPS growth	1/3	0% vesting for below 5% p.a. 25% vesting for 5% p.a. 100% vesting for 15% p.a. Straight-line vesting between these points
TSR outperformance[1]	1/3	0% vesting for below index 25% vesting for performance in line with index 100% vesting for performance in line with index + 12% p.a. Straight-line vesting between these points
May Gurney ROCE	1/3	0% vesting below 15% 25% vesting for 15% 100% vesting for 16% Straight-line vesting between these points

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

Payments to past directors

There were no payments made for the year ended 30 June 2014 to any person who was not a director of the Company at the time the payment was made but who had been a director before that time, other than the LTIP award granted to Ian Lawson which will vest on 17 November 2014, as described on page 78.

The values of the LTIP awards granted to Ian Lawson (who ceased to be a director on 21 June 2013) and Richard Simkin (who ceased to be a director on 30 June 2011) which vested on 14 November 2013, as disclosed in last year's annual report, were based on a three-month average middle market quotation of a share in the capital of the Company for the period ended 30 June 2013. Using the share price from 14 November 2013 of £17.19, Ian Lawson's award which vested in November 2013 is valued at £156,859 and Richard Simkin's award is valued at £45,949.

Payments for loss of office

As reported in last year's report and accounts, Ian Lawson resigned from the Board on 21 June 2013, although he was employed by the Group until 21 September 2013 to assist with the integration of May Gurney. Ian was entitled to £510,510 by way of a payment in lieu of his 12-month notice (which began on 21 September 2013), payable in six monthly instalments until March 2014 and the balance in a lump sum in April 2014. The payment comprised salary, pension contributions and pay in relation to accrued but untaken holiday. It was agreed that all amounts payable would be reduced to the extent that, during the notice period, remuneration was obtained from alternative employment. Ian obtained alternative employment with Severfield plc and, as a result, the total amount payable by Kier to Ian with respect to his notice period was significantly reduced to £136,010. A statutory redundancy payment of £8,100 was paid to Ian, who also received a taxable benefit of £13,911 as a result of buying his car from the Company at written down book value.

The Committee decided that, in light of Ian's long service with the Group (in total, approximately 20 years), it would be appropriate for Ian to be paid his bonus for the year ended 30 June 2013 and to allow his LTIP award granted in 2010 to vest in November 2013 (with his LTIP awards granted in November 2011 and September 2012 being pro rated for active service during the respective performance periods).

On 18 February 2014, it was announced that Paul Sheffield would stand down as chief executive with effect from 30 June 2014. Under his service agreement, Paul was entitled to 12 months' notice and it was therefore agreed that Paul's employment would terminate on the later of 30 June 2015 and the date, if any, on which he submitted a notice of resignation. Pending such termination, Paul would remain on garden leave. The Committee agreed that, up to (and including) 30 June 2015, Paul would be entitled to his salary (and cash pension supplement), payable in monthly instalments, but that he would take all reasonable steps to obtain work outside the Group, so as to reduce the amounts payable by the Company during his notice period. In July 2014, it was announced that Paul had obtained alternative employment with Laing O'Rourke, with effect from October 2014. As a result, the monthly payments from Kier will cease in October 2014. All payments made to Paul with respect to the year ending 30 June 2015 will be disclosed in next year's annual report on remuneration.

In light of his long service with the Group, it was agreed that Paul would receive his bonus for the year ended 30 June 2014 and that his 2011 LTIP award granted would be permitted to vest. However, no bonus will be payable to Paul in relation to the financial year ending 30 June 2015 and, although his LTIP awards granted in 2012 and 2013 will remain in place, they are subject to pro rating for active service during the performance periods.

Directors' shareholdings and share interests

The Committee encourages executive directors to build up a shareholding in the Company. With effect from 1 July 2013, the Committee increased the recommended level of shareholding from at least one year's salary to at least two years' salary, to be accumulated over a period of up to five years. Executive directors are therefore encouraged to retain any shares allocated to them as part of the annual bonus arrangements and 50% of the shares allocated to them upon the vesting of LTIP awards (net of tax) until this shareholding has been reached.

The following table sets out details, as at 30 June 2014, of the shareholding and share interests of those persons who, during the year ended 30 June 2014, served as a director of the Company:

	Shares held				Options held				
Director	Owned outright[1] or vested	Vested but subject to a holding period[2]	Unvested and subject to performance conditions[3]	Unvested and subject to continued employment[4]	Vested but not exercised	Unvested and subject to continued employment[5]	Shareholding guideline (% of salary)	Current shareholding (of salary)[6]	Guideline met?
Steve Bowcott	12,112	6,330	79,530	162	–	857	200	86.6%	No
Haydn Mursell	10,904	6,035	104,027	163	–	–	200	79.5%	No
Paul Sheffield	62,846	8,767	68,221	–	–	857	200	264.3%	Yes
Richard Bailey	–	–	–	–	–	–	n/a	n/a	n/a
Amanda Mellor	–	–	–	–	–	–	n/a	n/a	n/a
Phil White	2,540	–	–	–	–	–	n/a	n/a	n/a
Nick Winser	3,500	–	–	–	–	–	n/a	n/a	n/a

1 Comprising legally or beneficially held shares by the relevant director or their connected person (including partnership shares, dividend shares and matching shares purchased before 30 June 2011 under the AESOP – see 'AESOP' below). Does not include shares allocated in respect of the LTIP award vesting on 17 November 2014.
2 Comprising deferred shares allocated to the relevant director in connection with annual bonuses. See 'Deferred shares' below.
3 Comprising unvested LTIP awards. With respect to Paul Sheffield, calculated using the pro rated 2013 and 2014 awards referred to in note 1 under 'LTIP awards' below.
4 Comprising matching shares purchased under the AESOP within the three-year period ended 30 June 2014. See 'AESOP' below.
5 Comprising options under the SAYE Scheme. See 'SAYE Scheme' below.
6 Calculated based on (i) shares owned outright by the director or his connected persons and (ii) deferred shares allocated to the relevant director in connection with annual bonuses, using the middle market quotation of a share in the capital of the Company on 30 June 2014 of £17.75 and base salaries applicable to the year ended 30 June 2014.

Deferred shares

Those persons who, during the year ended 30 June 2014, served as a director of the Company beneficially owned, at 30 June 2014, the following numbers of shares in the capital of the Company as a result of awards of shares representing one-third of the relevant director's net bonus in each of the years indicated:

Director	2012 award	2013 award	2014 award	Cumulative total
Steve Bowcott	1,860	2,812	1,658	6,330
Haydn Mursell	1,620	2,757	1,658	6,035
Paul Sheffield	2,580	3,920	2,267	8,767
Date of award	17 October 2011	14 September 2012	28 October 2013	–
Share price used for award[1]	1,376p	1,401p	1,785p	–
End of holding period	17 October 2014	14 September 2015	28 October 2016	–

1 The middle market quotation of a share from the business day immediately prior to the date of the award, being 14 October 2011, 13 September 2012 and 25 October 2013, respectively.

Directors' remuneration report
continued

LTIP awards

Those persons who, during the year ended 30 June 2014, served as a director of the Company hold the LTIP awards over the following maximum numbers of shares in the capital of the Company:

Director	2012 award	2013 award	2014 award	Cumulative total 30 June 2014	Cumulative total 30 June 2013
Steve Bowcott	23,239	24,496	31,795	79,530	71,953
Haydn Mursell	23,239	48,993	31,795	104,027	96,450
Paul Sheffield[1]	32,394	33,490	40,505	106,389	99,477
Date of award	17 November 2011	14 September 2012	21 October 2013	–	–
Share price used for award[2]	1,420p	1,401p	1,781p	–	–
End of performance period	30 June 2014	30 June 2015	30 June 2016	–	–

1 The 2013 and 2014 awards granted to Paul Sheffield were reduced to, respectively, 22,326 and 13,501 shares in accordance with the terms of his departure.
2 The middle market quotation of a share from the business day immediately prior to the date of the award, being 14 November 2011, 13 September 2012 and 18 October 2013, respectively.

The performance conditions for the 2012 and 2013 awards are set out in the annual reports in respect of the year in which the awards were made. The performance conditions for the 2014 awards are disclosed on page 80.

AESOP

Those persons who, during the year ended 30 June 2014, served as a director of the Company beneficially own the following numbers of shares as a result of purchases under the AESOP at 30 June 2014:

Director	Partnership shares	Dividend shares	Matching shares (<3 years)	Matching shares (>3 years)	Total number of shares
Steve Bowcott	881	256	162	262	1,561
Haydn Mursell	372	45	163	23	603

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

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

Details of the number of matching shares purchased during the year are set out in the table in the paragraph headed 'Incentive awards made during the year' on page 79. At 17 September 2014, the Company had been notified that the following current directors had acquired beneficial interests in further ordinary shares in the capital of the Company under the AESOP since 30 June 2014: Steve Bowcott, 33 shares; and Haydn Mursell, 33 shares. There have been no other changes in the interests of the directors (or their connected persons) in the ordinary shares in the capital of the Company since 30 June 2014.

SAYE Scheme

Those persons who, during the year ended 30 June 2014, served as a director of the Company had the following options under the SAYE Scheme at 30 June 2014:

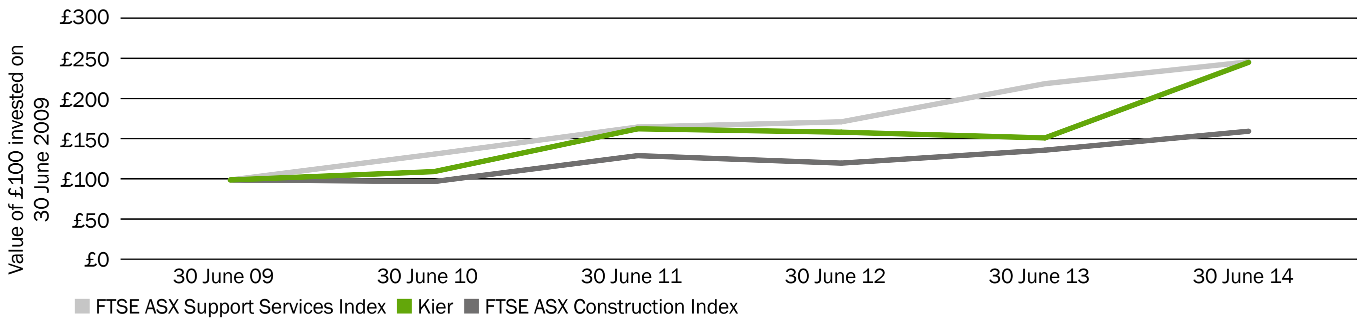
Director	Date granted	Maximum number of shares receivable at 1 July 2013	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum number of shares receivable at 30 June 2014[1]	Exercise price	Exercise period
Steve Bowcott	27 April 2012	857[1]	–	–	–	857	1,050p	1 July 2015 – 1 January 2016
Paul Sheffield	27 April 2012	857[2]	–	–	–	857	1,050p	1 July 2015 – 1 January 2016

1 Assumes that Steve Bowcott saves the maximum permitted amount until the commencement of the exercise period.
2 The maximum number of shares to which Paul Sheffield would have been entitled had he remained employed until the commencement of the option exercise period and saved the maximum permitted amount. The SAYE Scheme rules relating to 'leavers' will apply to the contribution saved by Paul Sheffield.

Total shareholder return and chief executive's remuneration

Total shareholder return

The TSR graph below shows the value, at 30 June 2014, of £100 invested in shares in the capital of the Company on 30 June 2009, compared with the value of £100 invested in the FTSE ASX Construction Index and the FTSE ASX Support Services Index. These benchmarks were chosen because they are considered to be the most appropriate against which the TSR of Kier should be measured and represents companies with which Kier competes. They also reflect trends within the UK construction and support services industries generally. The other points plotted are the values at 30 June during the five-year period.



Chief executive's remuneration

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

	30 June 2010		30 June 2011	30 June 2012	30 June 2013	30 June 2014
Chief executive	John Dodds	Paul Sheffield[1]	Paul Sheffield	Paul Sheffield	Paul Sheffield	Paul Sheffield
Total single figure	£1,427,000	£238,000	£753,000	£1,273,000	£987,000	£1,099,000
Annual bonus[2]	51%		69%	75%	48.8%	67.9%
Long-term incentive[2]	0%		0%	100%	31.2%	32.7%

1 Paul Sheffield became chief executive with effect from 1 April 2010. The figure quoted relates to remuneration received as chief executive during the year.

2 As a percentage of maximum opportunity.

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

Percentage change in the chief executive's remuneration

The table below shows the percentage change in the chief executive's base salary, taxable benefits and annual bonus for the year ended 30 June 2014, as compared with the year ended 30 June 2013, together with the approximate comparative figures for those employees within the Group who were also eligible for salary reviews on 1 July of each year and who were not subject to collective agreements. This section of the employee population (comprising approximately 3,000 individuals across all levels within the Group) is considered to be the most appropriate group for the purposes of a comparison, as decisions with respect to these employees are within the control of the Group and are affected by similar external market forces as those which relate to the chief executive's remuneration.

May Gurney was acquired on 8 July 2013 and, as a result, the figures below do not include members of staff who transferred with May Gurney.

	Chief executive change	All other employees change
Base salary	2.6%	5.5%
Taxable benefits	–	7.0%
Annual bonus	43.0%	5.5%

Distribution statement

The graph below shows the percentage changes in the total employee expenditure and dividend paid between the years ended 30 June 2013 and 30 June 2014.

Employee expenditure £m

Dividend £m

[1] Restated figure, on the adoption of the amendment to IAS 19.

Total employee expenditure for the years ended 30 June 2013 and 2014 is explained in note 6 to the consolidated financial statements.

The interim and final dividends for the year ended 30 June 2013 were 21.5p and 46.5p per share, respectively. The interim and final (proposed) dividends for the year ended 30 June 2014 are 22.5p and 49.5p per share, respectively.

Implementation of policy for the year ending 30 June 2015

Executive directors' base salary

The base salaries of the executive directors increased with effect from 1 July 2014 as follows:

Director	From 1 July 2014 (£000)	From 1 July 2013 (£000)	Increase
Steve Bowcott	421	378	11.5%
Haydn Mursell	505	378	33.6%

During consultation with shareholders in 2013, it was agreed that, for the 2015 financial year, Steve Bowcott's salary would increase by 6.5%, plus the approximate average salary increase of all employees in the Group of 5%, subject to continued satisfactory performance.

The Committee reviewed Steve's performance during the year, noting in particular the breadth of his responsibilities as chief operating officer, which included a leading role in the operational integration of May Gurney and the Group's business-efficiency programme, and, having also taken into account external market factors, decided that it would be appropriate to award him an aggregate increase of 11.5 per cent.

Paul Sheffield's salary for the year commencing 1 July 2013 was £481,000. In line with previous years, the Committee proposed to increase the chief executive's salary by the same level as the average increases across the Group of 5%. The chief executive's salary for the year commencing 1 July 2014 therefore increased by 5%, to £505,000.

Haydn Mursell became chief executive with effect from 1 July 2014 and the Committee considered it appropriate to appoint him on the same level of base salary that the outgoing chief executive would have received. Further information is set out on page 67.

Annual bonus

The maximum annual bonus opportunity for each executive director will remain at 100% of base salary for the 2015 financial year. The performance measures and targets for the bonus are set out in the policy table on page 70. The targets for each performance measure, and performance against these targets, will be disclosed in next year's annual report.

LTIP awards

The executive directors will be granted LTIP awards of 150% of base salary. The performance conditions for these awards will relate to cumulative EPS growth and TSR outperformance (with equal weightings). The targets for both the EPS and TSR elements of the award are the same as for the awards granted in the 2014 financial year, as described on page 80.

Pension and taxable benefits

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

Non-executive directors' fees

During the course of the year, there were a number of changes to the membership of the Board and its committees, as described previously in this annual report. When setting its remuneration policy, the Board therefore took the opportunity to review the overall fees paid to the non-executive directors (including the chairman) and to introduce a more formal structure, which the Board intends to review on an annual basis at the same time as it considers the executive directors' remuneration. The Company's remuneration consultants, Kepler Associates ('Kepler'), were instructed to benchmark the fees using a range of external reference points. When reviewing the fees, the Board took into consideration, in particular, the increasing time commitments required of the non-executive directors.

The Board also decided to pay a separate fee to the senior independent non-executive director for this element of his role, having previously only paid a minimal fee.

Having considered the results of the benchmarking exercise, the Board agreed that the following fee structure would apply from 1 July 2014:

Role	Fee
Non-executive director	£46,000
Chair of Board committee	£10,000
Senior independent non-executive director	£10,000

The Committee also decided, having considered the information provided by the benchmarking exercise, that it would be appropriate to increase the fee payable to the chairman by 5%, so as to bring it more into line with fees paid by peer group companies. The chairman does not receive a fee for his work as the chair of the Nomination Committee.

The total fees which were payable to the non-executive directors with effect from 1 July 2014 are:

Director	From 1 July 2014	From 1 July 2013	Increase
Richard Bailey	£66,000	£53,825	22.6%
Kirsty Bashforth[1]	£46,000	–	–
Amanda Mellor	£56,000	£53,825	4.0%
Phil White	£173,000	£164,771	5.0%
Nick Winser	£56,000	£53,825	4.0%

[1] With effect from 1 September 2014.

Remuneration Committee membership

The members of the Committee are:

- Amanda Mellor (chair, since 21 February 2014)
- Richard Bailey
- Kirsty Bashforth
- Phil White
- Nick Winser

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

Key activities of the Committee during the year included:

- Approving the 2013 directors' remuneration report;
- Approving the bonuses paid to the directors in respect of the 2013 financial year;
- Setting the performance measures relating to, and the quantum of, LTIP awards to be made to the executive directors during the 2014 financial year;
- Reviewing and setting the executive directors' remuneration for the 2015 financial year; and
- Reviewing the revised remuneration reporting regulations and preparing this report.

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

Remuneration Committee advisers

During the year, the Committee was advised by its independent remuneration advisers, Kepler. Kepler is a signatory to the Code of Conduct for Remuneration Consultants which has been developed by the Remuneration Consultants Group. Kepler was appointed by the Committee and provides no other advice, or services, to the Group and is therefore considered to be independent. Fees of £86,923 (excluding VAT) were paid to Kepler in respect of advice for the 2014 financial year. The Committee also seeks internal support and advice from the company secretary.

Shareholder voting

At the 2013 annual general meeting, the results of the votes on the directors' remuneration report were:

	Total number of votes	% of votes cast
For (including discretionary)	23,321,435	76.24
Against	7,270,027	23.76
Total votes cast (excluding withheld votes)	30,591,462	100
Votes withheld	398,611	1.30
Total votes cast (including withheld votes)	30,990,073	–

In 2013, the Committee reviewed the executive directors' remuneration to ensure that it remained in line with the Group's remuneration policy and continued to support sustainable long-term value for shareholders. Following this review, the Committee consulted major shareholders in the summer of 2013, as referred to on page 67. Although many shareholders supported the Committee's proposals, some expressed concerns about certain of them. Following this feedback, a number of revisions were made to the original proposals, including:

- Phasing the salary increases for the finance director and the chief operating officer over two years;
- Making no change to the annual bonus opportunity (which remained at 100% of salary); and
- Increasing the executive director shareholding guidelines to 200% of salary.

Despite these changes, however, certain shareholders (with a total number of shares of 7,270,027, representing approximately 13% of the issued share capital at the time) voted against the directors' remuneration report at the 2013 annual general meeting.

Directors' report

Introduction
The directors present their annual report and audited financial statements as at, and for the year ended, 30 June 2014.

The directors' report, together with the strategic report and other sections from the annual report, which are incorporated by reference, collectively comprise the 'management report', for the purposes of Disclosure and Transparency Rule 4.1.5R.

Results and dividends
The Group's profit for the year after taxation and exceptional items was £10.7m (2013: £25.6m*). An interim dividend of 22.5p per share (2013: 21.5p), amounting to £12.3m (2013: £8.5m), was paid on 16 May 2014. The directors propose a final dividend of 49.5p per share (2013: 46.5p per share), amounting to £27.1m (2013: £25.0m), payable on 28 November 2014 to shareholders on the register of members on 26 September 2014.

Future developments
An indication of the likely future developments of the business of the Company is set out in the strategic report on pages 1 to 51 (inclusive) and is incorporated by reference in this report.

Directors
The names of the directors of the Company during the reporting period are set out on page 58. Biographical details of the directors of the Company are shown on pages 54 and 55. Details of directors' interests in the Company's shares are disclosed in the directors' remuneration report on pages 67 to 85 (inclusive).

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

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

The UK Corporate Governance Code
A statement on the Group's corporate governance is set out on pages 56 to 59 (inclusive) and is incorporated by reference into this report.

Going concern
The going concern statement is set out on page 51 and is incorporated by reference into this report.

Political donations
No political donations were made during the year (2013: nil).

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

Research and development
The Group undertakes research and development activity in creating innovative construction techniques and designs for its projects. The direct expenditure incurred is not separately identifiable, as the investment is usually made within the relevant project.

* Restated figure, as per note 31 to the consolidated financial statements.

Employees
The companies in the Group are equal opportunities employers. The Group gives consideration to applications for employment made by disabled persons (having regard to their particular aptitudes and abilities) and encourages and assists, whenever practicable, the recruitment, training, career development and promotion of disabled people and the retention of, and appropriate training for, those who become disabled during the course of their employment and who can be employed in a safe working environment. The Group's approach to employee involvement, equal opportunities, health and safety and the environment is set out in the resources, relationships and sustainability report on pages 28 to 31 (inclusive) and is incorporated by reference into this report.

The Group provides relevant information on matters of concern to employees through newsletters, video addresses, the Group's intranet, social media and formal and informal meetings with various groups of employees and management. These aim to create a common awareness on the part of employees on matters affecting the performance of the Group. The Group also consults with employees to ascertain their views in relation to decisions which are likely to affect their interests. An example of this is the employee engagement survey which took place during the year.

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

In addition, as a result of the acquisition of May Gurney, the Group operates the May Gurney Savings Related Share Option Scheme, which is similar to the Sharesave Scheme. The existing May Gurney shares in this scheme were exchanged by participants for new options over shares in the capital of the Company.

Greenhouse gas emissions
Information relating to the greenhouse gas emissions of the Company is set out on page 29 and is incorporated by reference into this report.

Share capital
As at 30 June 2014, the issued share capital of the Company comprised a single class of ordinary shares of 1p each. At that date, 55,264,354 shares in the capital of the Company were in issue. During the year, 491,764 shares were issued in relation to the scrip dividend alternative, 210,073 shares were issued in connection with the Sharesave Scheme and 14,714,445 shares were issued under a scheme of arrangement in relation to the acquisition of May Gurney Integrated Services Public Limited Company. As at 17 September 2014, 55,390,767 shares in the capital of the Company were in issue. Details of the Company's share capital are set out in note 24 to the consolidated financial statements.

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

Restrictions on transfer of securities in the Company

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

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

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

Substantial voting rights

As at 17 September 2014, the Company had been notified of the following interests in the ordinary share capital of the Company (being voting rights over such share capital), pursuant to Rule 5.1 of the Disclosure and Transparency Rules:

Shareholder	Interest[1]
Standard Life Investments Limited	7.9%
Schroders plc	5.4%
Blackrock Inc.	5.0%
Norges Bank	4.0%

1 Subject to rounding.

Securities carrying special rights

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

Rights under employees' share schemes

As at 30 June 2014, RBC Trustees (Guernsey) Limited ('RBC'), as trustee of the Kier Group 1999 Employee Benefit Trust ('the Trust'), held 349,484 shares (0.63% of the issued share capital of the Company as at that date) on trust for the benefit of the employees of the Group. The Trust was established for the purposes of satisfying awards of shares made to individuals under the Group's remuneration and long-term incentive arrangements.

During the year, RBC waived the dividends payable in respect of these shares, but either received the dividends in respect of shares to which certain directors and senior managers are beneficially entitled as a result of their annual bonus being satisfied in part by an allocation of shares or elected to take up the scrip dividend with respect to these shares, as requested by the participants. RBC, in turn, transferred the dividends or allocated additional shares to the relevant directors and senior managers.

As at 30 June 2014, Computershare Investor Services PLC held 865,616 shares (approximately 1.57% of the issued share capital of the Company as at that date) on trust for the benefit of staff and former staff who are members of the AESOP.

As at 30 June 2014, the trustee of the May Gurney Limited Employee Share Ownership Trust and the trustee of the May Gurney Integrated Services plc Employee Benefit Trust held, respectively, 226,115 and 161,193 shares in the capital of the Company (together, 387,308 shares representing approximately 0.70% of the issued share capital of the Company as at that date) on trust for the benefit of employees of May Gurney. Both trusts were established for the purposes of satisfying awards of shares to individuals under May Gurney's remuneration and long-term incentive arrangements. During the year, the trustees waived the dividends payable in respect of these shares.

Voting

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

Restrictions on voting rights

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

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

Appointment and replacement of directors

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

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

Pursuant to the Articles, at every annual general meeting of the Company, one-third of the directors who are subject to the requirement to retire by rotation (not including any director who was appointed by the Board and is standing for election) will retire from office and may offer themselves for re-election by the members. The directors to retire by rotation will be those who have been longest in office since their last election. However, at the forthcoming annual general meeting of the Company, notwithstanding the provisions of the Articles, all the directors will offer themselves for re-election in accordance with The UK Corporate Governance Code.

The Company may by ordinary resolution, of which special notice has been given, remove any director before the expiry of the director's period of office. The office of a director will be vacated if:

- The director becomes bankrupt or the subject of an interim receiving order or makes any arrangement or composition with his creditors generally or applies to the court for an interim order in connection with a voluntary arrangement under the Insolvency Act 1986;
- The director is certified as having become physically or mentally incapable of acting as a director and may remain so for more than three months;
- The director ceases to be a director by virtue of the Companies Acts or becomes prohibited by law from being a director;
- The director receives written notice from not less than three-quarters of the other directors removing the director from office; or
- In the case of a director who holds executive office, the director ceases to hold such office and the majority of the other directors resolve that the relevant director's office be vacated.

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

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

Powers in relation to the Company issuing its shares
The directors were granted authority at the annual general meeting on 14 November 2013 to allot shares in the Company in accordance with section 551 of the Companies Act 2006 (i) up to an aggregate nominal amount of £182,403 and (ii) up to an aggregate nominal amount of £364,806 in connection with a rights issue. The directors were also granted authority to allot shares non-pre-emptively and wholly for cash up to an aggregate nominal amount of £27,360. In addition, at the same annual general meeting, an ordinary resolution was approved which grants the directors the authority to continue to offer the scrip dividend alternative. In accordance with the requirements of investor protection committees, this authority is renewed every five years.

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

Change of control
The Company has entered into certain agreements that may take effect, alter or terminate upon a change of control of the Company following a takeover bid. The significant agreements in this respect are:

- The Company's £120m revolving credit facility agreement dated 31 May 2012 entered into with HSBC Bank plc, Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Santander UK plc;
- The Company's £30m term facility agreement dated 11 January 2013 entered into with Lloyds TSB Bank plc;
- The Company's £50m term loan facility and £70m revolving credit facility agreement dated 22 April 2013 entered into with HSBC Bank plc, Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Santander UK plc (together with the £120m and £30m facility agreements, 'the Facility Agreements');
- The Company's £45m and $28m note purchase agreement dated 20 December 2012 ('the Note Purchase Agreement'); and
- Certain of the Group's employee share schemes.

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

The Note Purchase Agreement includes a provision under which, in the event of a change of control of the Company, the Company is obliged to offer to prepay the notes issued pursuant to the agreement.

Outstanding options granted under the Sharesave Scheme and the May Gurney Savings Related Share Option Scheme may be exercised within a period of six months from a change of control of the Company following a takeover bid (or will lapse upon the expiry of such a period).

Awards granted under the Group's long-term incentive plan (which is described in the directors' remuneration report) may vest on a change of control of the Company following a takeover bid and the maximum number of shares in the Company to be awarded upon such vesting may become immediately due.

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

Auditor
The Board has decided that PricewaterhouseCoopers LLP will be proposed as the Group's auditor for the financial year ending 30 June 2015 and a resolution relating to this appointment will be tabled at the forthcoming annual general meeting.

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

Annual general meeting
The annual general meeting of the Company will be held at 12 noon at the Andaz Hotel, 40 Liverpool Street, London, EC2M 7QN on 13 November 2014.

This report was approved by the Board on 17 September 2014 and signed on its behalf by:

Hugh Raven
Company Secretary
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

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 European Union ('IFRS') and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law ('UK Generally Accepted Accounting Practice').

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

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

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

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

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

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

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

Directors' responsibility statement

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;
- 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; and
- The annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Signed on behalf of the Board by:

Haydn Mursell
Chief Executive

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

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Kier Group plc for the year ended 30 June 2014 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated and Company Balance Sheet; and, the Consolidated Cash Flow Statement and related notes. 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 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; 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.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

Profit recognition on Contracts

Refer to page 63 (Risk Management and Audit Committee Report), page 98 (accounting policy) and page 104 (financial disclosures).

- **The risk:** The Group has significant long-term contracts in both the Construction and Services divisions. The recognition of profit on construction and long-term services contracts in accordance with IAS 11 is based on the stage of completion of contract activity. This is assessed by reference to the proportion of contract costs incurred for the work performed at the balance sheet date relative to the estimated total costs of the contract at completion.

  Profit on contracts is a key risk for our audit because of the judgement involved in preparing suitable estimates of the forecast costs and revenue on contracts. An error in the contract forecast could result in a material variance in the amount of profit or loss recognised to date and therefore also in the current period.

  The forecast profit on contracts includes key judgements over the expected recovery of costs arising from the following: variations to the contract requested by the customer, compensation events, and claims made against the contractor for delays or other additional costs for which the customer is liable. The inclusion of these amounts in the contract forecast where they are not recoverable could result in a material error in the level of profit or loss recognised by the Group.

The inclusion of these amounts in the contract forecast where they are not recoverable could result in a material error in the level of profit or loss recognised by the Group.

- **Our response:** We used a variety of quantitative and qualitative factors to select those contracts with a higher risk of material error based on their size or the complexity of contract accounting estimates for detailed testing. Our audit procedures included but were not limited to:
  - assessing whether the amounts recognised in the financial statements were in line with the Group's accounting policy, including relevant accounting standards, and whether they represented a balanced view of the risks and opportunities in respect of the forecast profit to completion. We challenged senior operational, commercial and financial management's judgement by obtaining and assessing information to support the forecast assumptions. These assumptions included the expected recovery of variations, claims and compensation events included in the forecast, and the historical financial performance and forecast out-turn against budget of other contracts of a similar nature and size and industry knowledge;
  - inspecting correspondence and meeting minutes with customers concerning variations, claims and compensation events, and obtaining third party assessments of these from legal or technical experts contracted by the Group, if applicable to assess whether this information was consistent with the estimates made by senior operational, commercial and financial management, including any pain/gain share arising as a result of the recognition of compensation events in the forecast contract outcome. Where legal or technical experts were contracted by the Group and we sought to use the work of that expert, we evaluated the professional competence and objectivity of the expert;
  - performing site visits to physically inspect the stage of completion of certain individual projects and identify areas of complexity through observation and discussion with site personnel;
  - inspecting the selected signed contracts for key clauses to identify relevant contractual mechanisms such as the sharing of cost overruns or efficiencies with the customer, contractual damages and success fees and assess whether these key clauses have been appropriately reflected in the amounts included in the forecasts;
  - inspecting correspondence and meeting minutes with insurers relating to recognised insurance claims as well as assessments of these undertaken by the insurer's and Group's legal or technical experts where applicable to assess whether this information supported the position taken on the contract;
  - evaluating a sample of forecast costs for reasonableness by reviewing the basis of their calculation, which included supplier quotes, forecast estimates and supplier contracts and challenging senior operational, commercial and financial management where there were differences to identify forecast errors, including inappropriate assumptions based on historical performance and industry knowledge;
  - considering the adequacy of the Group's disclosures in respect of the judgements taken with respect to profit recognition and the key risks relating to these amounts and to any individually significant contracts, including specifically the Castlepoint contract.

Valuation of land and stock units

Refer to page 63 (Risk Management and Audit Committee Report), page 101 (accounting policy) and pages 119 (financial disclosures)

- **The risk:** Inventories, which principally comprise the Group's land held for development and work in progress, are stated at the lower of cost and net realisable value (i.e. the forecast selling price less the remaining costs to build and sell). An assessment of the net realisable value of inventory is carried out at each balance sheet date and is dependent upon the Group's estimate of forecast selling prices and build costs (by reference to current prices), which may require significant judgement. Further, build costs are subject to a number of variables including the accuracy of designs, market conditions in respect of materials and sub-contractor cost and construction issues. Accordingly, a change in the Group's forecast estimate of sales price and build cost could have a material impact on the carrying value of inventories in the Group's financial statements. Whilst residential values are generally improving, there remains a risk that residential and development projects are valued at cost exceeding recoverable value.

- **Our response:** For land held for development, our audit work was focused on sites where gross margin was forecast to be less than 10% for inventory sales because these sites are considered to have the most sensitivity to management's estimates. Our audit procedures included, among others:

  - challenging the Group's forecast sales prices by comparing the forecast sales price of a sample of inventory to sales prices achieved and the list prices of comparable assets as published by estate agents;

- challenging the Group's forecast of build cost per square foot by comparing to the build costs for similar units on other sites and where there were differences, corroborating senior operational, commercial and financial management's explanations to third party confirmations including correspondence with suppliers and comparable properties on other sites.

For work in progress, our audit work was focused using quantitative factors and where cost versus net realisable value headroom was considered to have the most sensitivity to management's estimates in calculating net realisable value. Our audit procedures included, among others:

- discussing significant work in progress balances with relevant project managers to identify the key drivers behind appraisal forecasts and net realisable values such as forecast yields and cost plans;
- challenging management's key assumptions relating to estimated sales revenue and costs by comparing the forecast yields applied to comparable market evidence including evaluating the sensitivity of the margin to a change in sales prices and costs and considering whether this indicated a risk of impairment where required. For projects involving large sites or split across multiple phases, we assessed the appropriateness of the allocation of site-wide or project-wide costs.

We also assessed the disclosures on page 119 regarding the key judgements and estimates in determining net realisable value of land and work in progress.

Assessment of the fair value provisions arising on the May Gurney acquisition

Refer to page 63 (Risk Management and Audit Committee Report), page 103 (accounting policy) and pages 130 (financial disclosures).

- **The risk:** In July 2013, the Group acquired May Gurney for a total consideration of £222m. Accounting for this significant acquisition involved recognition and measurement of assets acquired and liabilities assumed as part of the acquisition. The acquisition was an non-adjusting post balance sheet event per IAS 10, but the 2013 financial statements disclosed the initial accounting for the acquisition. Due to the proximity of the timing of the acquisition to the reporting date, the acquisition accounting was incomplete. During the year ended 30 June 2014, the Group became aware of additional information about facts and circumstances that existed at the acquisition date. As such a number of measurement period adjustments were made to the provisional amounts, the most material adjustments relating to contract provisions.

  The measurement of the fair value of contract provisions for the May Gurney acquisition involved significant judgements in relation to the assumptions applied to forecasting and discounting future cash flows. Due to the inherent uncertainties in timing and quantities of these future cash flows, particularly the quantity of annual spend on specific contracts and the outcome of any claims, which form an integral part of the fair value model, this is one of the key judgemental areas that our audit concentrated on.

- **Our response:** Our audit procedures over the acquisition date fair values, and particularly in relation to the off-market contract provision, included but were not limited to:

  - discussing with senior operational, commercial and financial management and challenge of the contract assumptions and judgements, such as profitability, claims and cash flow timings, used to determine the carrying amount of the fair value model;
  - assessing the completeness and quantum of adjustments made by management against our own expectations, formed from review of the due diligence reports prepared during the acquisition, an independent report on fair values prepared post-acquisition for management, our understanding of May Gurney's particular circumstances from the audit, and our knowledge and experience of the industry and understanding of May Gurney's particular circumstances;
  - comparing the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth and cost inflation, in addition to testing the sensitivity of the values produced by the model to changes in certain inputs and assumptions, in order to derive comfort over the principles underpinning the model;
  - performing procedures over the integrity of the design and build of the model, including verifying that formulae worked as intended; and
  - considering the adequacy of disclosures made to allow users to evaluate the financial effects of adjustments recognised.

Carrying amount of goodwill in relation to the May Gurney acquisition

Refer to page 63 (Risk Management and Audit Committee Report), page 103 (accounting policy) and pages 115 (financial disclosures).

- **The risk**: As detailed in Note 12 of the financial statements, the Group's key Cash Generating Units (CGUs) are Construction, Services and Property. The majority of the Group's goodwill is in relation to the acquisition of May Gurney Integrated Services Public Limited Company. The majority (97%) of goodwill recognised from the acquisition of May Gurney has been allocated to the Services division with the remainder (3%) allocated to the Construction division. The Group goodwill impairment testing is performed with reference to value in use which is measured by the present value of the cash flow forecasts expected to be derived in the respective CGUs.

  The services industry has experienced rising costs, local authority budget cuts / moving services back in-house and more competitive pricing in the market. This, coupled with subdued demand due to the economic recession in recent times has resulted in a depressed growth environment. Therefore there is a risk that sufficient cash flows will not be generated within the Services CGU to support the carrying amount of goodwill.

  Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas that our audit concentrated on.

- **Our response:** In this area our audit procedures included, among others, testing of the principles and integrity of the Group's discounted cash flow model. We did this by agreeing key inputs such as contract renewal dates, capital and operating costs and profitability to underlying contracts, our knowledge of the Group and industry and historical outcomes. We also assessed the probability of contracts being won, renewed or lost through discussion with the directors.

  We challenged the appropriateness of key assumptions used by the Group in impairment testing (discount rate, growth rate, and inflation) by comparing these to externally available market data for reasonableness. We performed a sensitivity analysis for the key assumptions which included growth rate, operating costs and discount rate. We also assessed whether or not the assumptions showed any evidence of management bias with a particular focus on the risk that the cash flow forecasts may not support the carrying value of goodwill.

  We considered the adequacy of the Group's disclosures and the requirements of accounting standards in respect of impairment testing, disclosure of sensitivity of the headroom to key assumptions and disclosure of the key judgments taken by management in the cash flow forecasts and impairment review.

Presentation of non-underlying amounts

Refer to page 63 (Risk Management and Audit Committee Report), page 103 (accounting policy) and page 106 (financial disclosures).

- **The risk:** In order to give a better understanding of the underlying performance of the business, management have presented a view of the underlying results of the Group, with separate disclosure of 'non-underlying items'. There is a risk that items are included within this caption not in accordance with clearly disclosed Group accounting policies and relevant accounting standards, and therefore the 'underlying' result is misstated, and that the items included here are not clearly set out or are inconsistently included, and therefore the 'underlying' result is not understandable.
- **Our response:** In this area our audit procedures included but were not limited to:
  - Considering whether the Group finance team have consistently identified non-underlying items by comparing the nature of current year items with those included within the caption in prior years;
  - Critically assessing the consistency and presentation of specific items taking into account the Group's policy;
  - Considering the appropriateness, by reference to accounting standards, of the individual items presented within non-underlying items and therefore excluded from underlying items; and
  - Considering the adequacy of the Group's disclosures about the items included within this caption in note 4 (non-underlying items) and the related accounting policies for these categories on page 106.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £3.9m. This has been determined with reference to a benchmark of Group profit before taxation excluding non-underlying items (of which it represents 6.3 %) which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the Risk Management and Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £195,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

- Audits for Group reporting purposes were performed by component auditors at the key reporting components in the UK and by the Group audit team in the UK. These Group procedures covered 97% of total Group revenue. The segment disclosures in note 2 set out the individual significance of specific segments.
- The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the Group audit team. These materiality levels were set individually for each component and ranged from £0.45m to £3.9m.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Statement set out on page 56 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.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Risk Management and Audit Committee Report does not appropriately address matters communicated by us to the Risk Management and Audit Committee.

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 89, in relation to going concern;
- The part of the Corporate Governance Statement on page 56 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review; and
- We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 89, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Michael Froom (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor Chartered Accountants

15 Canada Square
London
E14 5GL

17 September 2014

Consolidated income statement
For the year ended 30 June 2014

	Notes	2014 Underlying items £m	2014 Non-underlying items including amortisation of intangible contract rights* £m	2014 Total £m	2013 Underlying items*† £m	2013 Non-underlying items including 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	14	**1.6**	**–**	**1.6**	0.9	–	0.9
Profit on disposal of joint ventures	30d	**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	5	**2.2**	**–**	**2.2**	2.3	–	2.3
Finance cost	5	**(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	9a	**(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	12	**0.7**	**–**	**0.7**	1.0	–	1.0
		59.2	**(48.5)**	**10.7**	42.5	(16.9)	25.6
Earnings per share							
– basic	11	**107.7p**	**(89.3)p**	**18.4p**	105.6p	(43.0)p	62.6p
– diluted	11	**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 (see note 4).

† Restated on adoption of the amendment to IAS 19 (see note 31).

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	14	**15.1**	4.7
Tax on share of joint venture fair value movements in cash flow hedging instruments	9c	**(3.6)**	(1.7)
Fair value movements in cash flow hedging instruments		**(1.7)**	–
Tax on fair value movements in cash flow hedging instruments	9c	**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	8	**(18.7)**	(7.1)
Tax on actuarial losses on defined benefit liabilities	9c	**(4.9)**	(1.2)
Tax on provisions	9c	**(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

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 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 31).

Consolidated balance sheet
At 30 June 2014

	Notes	2014 £m	2013 £m
Non-current assets			
Intangible assets	12	**323.8**	30.0
Property, plant and equipment	13	**192.4**	109.2
Investment in joint ventures	14	**40.9**	29.7
Deferred tax assets	15	**1.8**	23.5
Trade and other receivables	18	**23.5**	29.6
Non-current assets		**582.4**	222.0
Current assets			
Inventories	16	**470.4**	399.4
Trade and other receivables	18	**586.4**	345.6
Corporation tax receivable		**7.5**	9.3
Assets held for sale	19	**10.4**	4.2
Cash and cash equivalents	20	**112.4**	152.3
Current assets		**1,187.1**	910.8
Total assets		**1,769.5**	1,132.8
Current liabilities			
Borrowings	20	**(39.8)**	–
Finance lease obligations	21	**(27.6)**	(2.7)
Other financial liabilities	27	**(0.1)**	(0.1)
Trade and other payables	22	**(982.7)**	(754.5)
Provisions	23	**(27.9)**	(17.6)
Current liabilities		**(1,078.1)**	(774.9)
Non-current liabilities			
Borrowings	20	**(195.4)**	(92.5)
Finance lease obligations	21	**(59.4)**	(11.0)
Other financial liabilities	27	**(2.0)**	(0.5)
Trade and other payables	22	**(9.3)**	(6.1)
Retirement benefit obligations	8	**(59.8)**	(49.7)
Provisions	23	**(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	24	**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	24	**(2.9)**	(13.0)
Translation reserve	24	**(3.6)**	0.4
Merger reserve	24	**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

The financial statements on pages 93 to 138 were approved by the Board of directors on 17 September 2014 and were signed on its behalf by:

Haydn Mursell
Director

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	4	**42.2**	17.0
Net finance cost	5	**20.2**	9.2
Share of post-tax trading results of joint ventures	14	**(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	25	**4.0**	4.0
Negative goodwill recognised, amortisation and impairment of intangible assets		**10.8**	4.3
Depreciation charges	13	**41.5**	12.7
Profit on disposal of joint ventures	30d	**(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	14	**0.3**	0.2
Interest received		**2.2**	2.3
Income taxes received		**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	30d	**17.3**	13.0
Purchases of property, plant and equipment		**(48.2)**	(22.1)
Purchase of intangible assets	12	**(6.2)**	(5.5)
Investment in assets held for resale		**(4.0)**	–
Acquisition of subsidiaries	30a	**(65.6)**	(31.5)
Net investment in joint ventures		**(11.7)**	(19.2)
Overdraft acquired	30b	**(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	30e	**4.2**	13.0
Net cash used in investing activities		**(125.0)**	(49.4)
Cash flows from financing activities			
Issue of shares	24	**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	21	**40.3**	6.6
Inflow from new borrowings		**102.9**	92.5
Finance lease repayments	21	**(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	20	**72.6**	152.3

† Restated on adoption of the amendment to IAS 19 (see note 31).

Notes to the consolidated financial statements
For the year ended 30 June 2014

1 Significant accounting policies
Kier Group plc (the Company) is a Company domiciled in the United Kingdom (UK) and incorporated in England and Wales. The consolidated financial statements of the Company for the year ended 30 June 2014 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in joint arrangements.

The consolidated financial statements were approved by the directors on 15 September 2014.

Statement of compliance
The Group's consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 July 2013.

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 133 to 135.

Basis of preparation
The Group has considerable financial resources, long-term contracts and a diverse range of customers and suppliers across its business activities.

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

The financial statements are presented in pounds sterling. They have been prepared on the historical cost basis except for derivative financial instruments which are stated at their fair value.

The following amendments to standards or interpretations are effective for the first time for the financial year ended 30 June 2014:

IFRS 13	Fair Value Measurement
IFRIC 20	Stripping costs in the production phase in a surface mine
IAS 19R	Employee Benefits
Amendments to IFRS 7	Financial Instruments: Disclosures (Offsetting financial assets and financial liabilities)
IAS 32	Financial Instruments: Presentation (Offsetting financial assets and financial liabilities)

The adoption of IAS 19R has resulted in a representation of the accounting for defined benefit pension schemes, but with no overall impact on the pension deficit (see note 31).

The following new standards and amendments to standards have been issued, but are only effective for the financial year ended 30 June 2015 onwards:

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 36	Impairment of Assets (Recoverable amount disclosures for non-financial assets)

The following new standards and amendments to standards have been issued, but the effective dates are currently undetermined as they have not yet been endorsed by the EU.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

The directors have considered the impact of these new standards and interpretations in future periods. The Group awaits the final publication of the new IFRS standard 'Revenue from Contracts with Customers' which is expected to be published imminently. The new standard will replace IAS 18 'Revenue' and IAS 11 'Construction Contracts'. It will become effective for accounting periods on or after 1 January 2017 at the earliest and will therefore be applied for the first time to the Group accounts in 30 June 2018; the IASB has indicated that early adoption will be permitted. The Group has begun a systematic review of all existing major contracts to ensure that the impact and effect of the new standard is fully understood and changes to the current accounting procedures are highlighted and acted upon in advance of the effective date.

Other than the impact of IFRS 15 as noted above, no significant net impact from the adoption of these new standards is expected. The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

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

Basis of consolidation
(a) Subsidiaries
The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 30 June 2014. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases.

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

If a business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurements are recognised in profit or loss.

Notes to the consolidated financial statements
For the year ended 30 June 2014 continued

1 Significant accounting policies continued

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

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

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

Provisional fair values allocated at a reporting date are finalised within 12 months of the acquisition date.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement unless the contingent consideration is classified as equity, in which case settlement is accounted for within reserves.

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(b) Joint arrangements

A joint 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 joint ventures are accounted for using the equity method. Under this method the Group's share of the profits less losses of jointly controlled entities is included in the consolidated income statement and its interest in their net assets is included in investments in the consolidated balance sheet. Where the share of losses exceeds the Group's interest in the entity and there is no obligation to fund these losses the carrying amount is reduced to nil, following which no further losses are recognised. Interest in the entity is the carrying amount of the investment together with any long-term interests that, in substance, form part of the net investment in the entity.

From time to time the Group undertakes contracts jointly with other parties. These fall under the category of jointly controlled operations as defined by IAS 31. In accordance with IAS 31, the Group accounts for its own share of sales, profits, assets, liabilities and cash flows measured according to the terms of the agreements covering the jointly controlled operations.

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 value at 1 July 2004 subject to being tested for impairment. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

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

Contract rights	over the remaining contract life
Computer software	3-7 years

Exceptional items

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

Revenue and profit recognition

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

Revenue and profit are recognised as follows:

(a) Construction contracts

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

Profit on contracts is calculated in accordance with accounting standards and industry practice. Industry practice is to assess the estimated final outcome of each contract and recognise the profit based upon the percentage of completion of the contract at the relevant date. The assessment of the final outcome of each contract is determined by regular review of the revenues and costs to complete that contract. Consistent contract review procedures are in place in respect of contract forecasting.

The general principles for profit recognition are as follows:

- Profits on short duration contracts are taken when the contract is complete;
- Profits on other contracts are recognised on a percentage of completion basis when the contract's outcome can be estimated reliably;
- Provision is made for losses incurred or foreseen in bringing the contract to completion as soon as they become apparent;
- Claims receivable are recognised as income when received or certified for payment, except that in preparing contract forecasts to completion, a prudent and reasonable evaluation of claims receivable may be included to mitigate foreseeable losses and only to the extent that there is reasonable certainty of recovery; and
- Variations and compensation events are included in forecasts to completion when it is considered highly probable that they will be recovered.

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

(b) Services

Revenue and profit from services rendered, which include facilities management, maintenance, street cleaning and recycling, is recognised as and 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.

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

(e) PFI service concession agreements

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

1 Significant accounting policies continued

Pre-contract costs

Costs associated with bidding for contracts are written off as incurred (pre-contract costs). When it is probable that a contract will be awarded, usually when the Group has secured preferred bidder status, 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, including expenditure that is directly attributable to the acquisition of the items, less the estimated residual value, and the estimated economic lives of the assets concerned. Freehold land is not depreciated. Other tangible assets are depreciated to residual values in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

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

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

Leases

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

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

Employee benefits

(a) Retirement benefit obligations

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

The Group accounts for defined benefit obligations in accordance with IAS 19 (Revised). Obligations are measured at discounted present value while plan assets are measured at fair value. The operating and financing costs of such plans are recognised separately in the income statement; current service costs are spread systematically over the lives of employees and financing costs are recognised in full in the period in which they arise. Remeasurements of the net defined pension liability, including actuarial gains and losses, are recognised immediately in other comprehensive income.

Where the calculations result in a surplus to the Group, the recognised asset is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan.

(b) Share-based payments

Share-based payments granted but not vested, are valued at the fair value of the shares at the date of grant. This affects the Sharesave and Long Term Incentive Plan (LTIP) schemes. The fair value of these schemes at the date of award is calculated using the Black-Scholes model apart from the total shareholder return element of the LTIP which is based on a stochastic model.

The cost to the Group of awards to employees under the LTIP scheme is spread on a straight-line basis over the relevant performance period. The scheme awards to senior employees a number of shares which will vest after three years if particular criteria are met. The cost of the scheme is based on the fair value of the shares at the date the options are granted.

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

Finance income and costs

Interest receivable and payable on bank balances is credited or charged to the income statement as incurred using the effective interest rate method.

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

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

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

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is 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 deferred tax provision is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Foreign currencies

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

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

Mining assets

Opencast expenditure incurred prior to the commencement of operating an opencast site is capitalised and the cost less the residual value is depreciated over the 'coaling life' of the site on a coal extraction basis.

The cost of restoration is recognised as a provision as soon as the restoration liability arises. The amount provided represents the present value of the anticipated costs. Costs are charged against the provision as incurred and the unwinding of the discount is included within finance costs. A tangible asset is created for an amount equivalent to the initial provision and depreciated on a coal extraction basis over the life of the asset. Where there is a subsequent change to the estimated restoration costs or discount rate, the present value of the change is recognised as a change in the restoration provision with a corresponding change in the cost of the tangible asset until the asset is fully depreciated when the remaining adjustment is taken to the income statement.

Inventories

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

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

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

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

Assets held for sale

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

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

1 Significant accounting policies continued

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

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

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

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

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

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

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

(c) Bank and other borrowings
Interest-bearing bank and other borrowings are recorded at the fair value of the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

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

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

For cash flow hedges the effective part of the change in fair value of these derivatives is recognised directly in 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 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 sales, property development and construction contracts require forecasts to be made of the outcome of long-term contracts which require assessments and judgements to be made on the recovery of pre-contract costs, changes in the scope of work, contract programmes, maintenance and defects liabilities and changes in costs.

(b) Valuation of land and work in progress
The key judgements and estimates in determining the net realisable value of land and work in progress are:

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

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

(c) Determination of fair values of identifiable net assets on acquisitions

On the acquisition of a business, fair values are attributed to the identifiable assets and liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is subsumed into goodwill.

(d) Defined benefit pension scheme valuations

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

- Expected return on plan assets;
- Inflation rate;
- Mortality;
- Discount rate; and
- Salary and pension increases.

Details of the assumptions used are included in note 8.

(e) Provisions

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the amount and timing of liabilities judgement is applied and re-evaluated at each reporting date.

(f) Recoverable value of recognised receivables

The recoverability of trade and other receivables is regularly reviewed in the light of available economic information specific to each receivable and provisions are recognised for balances considered to be irrecoverable.

(g) Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of cash-generating units (CGUs) to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the CGU and the application of a suitable discount rate in order to calculate the net present value. Cash flow forecasts for the next three years are based on the Group's budgets and forecasts. Other key inputs in assessing each CGU are revenue growth, operating margin and discount rate. The assumptions are set out in note 12 together with an assessment of the impact of reasonably possible sensitivities.

(h) Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item is part of underlying or non-underlying items requires judgement.

(i) Assets held for sale

When it is probable that businesses will be sold within one year and they are being actively marketed they meet the criteria to be classified as held for sale.

(j) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the overall provision for income taxes. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is judged probable that future taxable profit will arise against which the temporary differences will be utilised.

2 Segmental reporting

The Group operates 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 strategic review on pages 10 to 13 and the divisional reviews on pages 34 to 45.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies on pages 97 to 103. 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.

2 Segmental reporting continued

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)[4]	**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[3]	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 Inter-segmental pricing is determined on an arm's length basis.
4 Net operating assets/(liabilities) represent assets excluding cash, borrowings and interest-bearing inter-company loans.
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.

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)[4]	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[3]	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 Inter-segmental pricing is determined on an arm's length basis.
4 Net operating assets/(liabilities) represent assets excluding cash, borrowings and interest-bearing inter-company loans.
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 31).

3 Profit for the year

Profit before taxation is stated after charging:

	2014 £m	2013 £m
Auditor's remuneration:		
Fees payable for the audit of the parent company and consolidated financial statements	**0.1**	0.1
Fees payable to the Company's auditor for other services:		
Audit of the Company's subsidiaries, pursuant to legislation	**0.7**	0.6
Other services	**0.9**	1.2
Hire of plant and machinery	**55.1**	23.7
Operating lease rentals:		
Land and buildings	**4.7**	5.0
Plant and machinery	**11.6**	20.0

The 2013 auditor's remuneration for statutory audit services and non-audit services relate to amounts paid to KPMG Audit Plc. The 2014 amounts solely relate to amounts paid to KPMG LLP.

Other services mainly comprise £0.7m for advice in connection with the Group's organisational efficiency and transformation project.

Notes to the consolidated financial statements
For the year ended 30 June 2014 continued

4 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 and related 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.

During the year the Group incurred costs of £8.1m on the acquisition of May Gurney (2013: £1.8m; following this acquisition the business incurred £29.6m of restructuring and transformation costs, primarily related to reduction in staff numbers and office rationalisation across the enlarged business.

Provision has been made for the likely £4.5m costs to satisfy the Group's share of both claims from, and administration costs of, The Construction Workers Compensation Scheme and related costs.

In 2013 the Group incurred restructuring costs in the Construction and Services divisions (£10.1m), and provided for the loss on disposal of the tower crane business along with other discontinued businesses (£3.2m) and for the closure of the scaffolding and related businesses, (£1.9m).

5 Finance income and cost

	2014			2013		
	Underlying £m	**Non-underlying[1] £m**	**Total £m**	Underlying £m	Non-underlying[1] £m	Total £m
Finance income						
Interest receivable on bank deposits	**0.6**	**–**	**0.6**	1.0	–	1.0
Interest receivable on loans to joint ventures	**1.6**	**–**	**1.6**	1.3	–	1.3
	2.2	**–**	**2.2**	2.3	–	2.3
Finance costs						
Interest payable and fees on bank overdrafts and loans	**(3.6)**	**–**	**(3.6)**	(2.4)	–	(2.4)
Interest payable on borrowings	**(7.8)**	**–**	**(7.8)**	(3.0)	–	(3.0)
Interest payable to joint ventures	**(0.1)**	**–**	**(0.1)**	–	–	–
Interest payable on finance leases	**(2.7)**	**–**	**(2.7)**	(0.4)	–	(0.4)
Discount unwinding	**(1.1)**	**(5.3)**	**(6.4)**	(1.5)	(1.3)	(2.8)
Net interest on net defined benefit obligation	**(1.8)**	**–**	**(1.8)**	(2.9)	–	(2.9)
	(17.1)	**(5.3)**	**(22.4)**	(10.2)	(1.3)	(11.5)

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

6 Information relating to employees

	Note	2014 No.	2013† No.
Average number of people employed during the year including executive directors was:			
United Kingdom		**14,318**	9,763
Rest of world		**1,017**	692
		15,335	10,455
		£m	£m
Group staff costs are as follows:			
United Kingdom		**576.4**	386.5
Rest of world		**37.0**	18.4
		613.4	404.9
Comprising:			
Wages and salaries		**522.2**	339.8
Social security costs		**45.9**	31.4
Defined benefit pension scheme costs		**14.0**	16.0
Contributions to the defined contribution pension scheme		**27.3**	13.7
Share-based payment plans	25	**4.0**	4.0
		613.4	404.9

† Restated on adoption of the amendment to IAS 19 (see note 31).

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 67 to 85.

8 Retirement benefit obligations
The Group operates a number of pension schemes for eligible employees as described below.

Kier Group Pension scheme
This is the principal scheme and includes a defined benefit section and a defined contribution section. The assets of the scheme are held in trust separate from the assets of the Group. The trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers.

The defined benefit section of the scheme was closed to new entrants on 1 January 2002; existing members continue to accrue benefits for future service, although consultation with members to close the scheme to future accrual commenced in July 2014.

An actuarial valuation of the scheme was undertaken by the trustees' independent actuaries as at 1 April 2013 using the projected unit method. The market value of the scheme's assets at that date was £822m which represented approximately 83% of the benefits that had accrued to members at that date, after allowing for future increases in pensionable salaries. The contributions paid during the year were £16.4m (2013: £29.4m) which included contributions of £8m (2013: £20.1m) to fund the past service deficit.

The Group is currently consulting with members over the closure of the defined benefit section to future accrual (with effect from 1 November 2014).

Going forward, contributions will include an allowance for funding the past service deficit identified at the 2013 valuation date. The Group expects to make contributions for future service of £2.8m, being 21.8% of pensionable pay until 1 November 2014 assuming future accrual ends at that date, plus £16.7m for funding the past service deficit in the year to June 2015.

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

Kier Sheffield LLP (participation in South Yorkshire Pension Fund)
The Group participated in the South Yorkshire Pension Fund through its subsidiary Kier Sheffield LLP. The participation commenced on 1 April 2003 when Kier Sheffield LLP became an admitted body. As such it was granted a fully funded past service position at that date, with assets and past service liabilities of £65.0m.

The scheme originally covered 1,146 employees who transferred from Sheffield City Council's employment to Kier Sheffield LLP at the start of the contract. New employees were 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.

The original contract terminated on 31 March 2014 and therefore Kier Sheffield's participation in this defined benefit scheme ceased on that date. The assets and liabilities relating to Kier Sheffield LLP's liabilities have been transferred back to Sheffield City Council.

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 nine month period to 31 March 2014 were £2.1m (2013: £1.8m).

8 Retirement benefit obligations continued

Other defined benefit schemes

The May Gurney and TransLinc defined benefit schemes were acquired with May Gurney (see note 30). Both of these defined benefit schemes have closed to future accrual and the sum of the deficit contributions to both plans payable in the period to 30 June 2014 amounted to £0.3m. The assets of the scheme are held in trust separate from the assets of the Group. The trustees are responsible for decisions, holding the assets and delegate day to day decisions to independent professional investment managers.

Other defined contribution schemes

Contributions are also made to a number of other defined contribution arrangements. The Group paid contributions of £26.7m (2013: £13.7m) during the year to these arrangements.

IAS 19 'Employee Benefits' disclosures

Kier recognises 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 were:

Kier Group Pension Scheme

	2014 %	2013 %	2012 %
Rate of general increases in pensionable salaries	**3.3**	3.3	2.8
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.2**	3.2	2.8
Discount rate	**4.4**	4.7	4.7
Inflation rate (RPI)	**3.4**	3.5	3.0
Inflation rate (CPI)	**2.4**	2.5	2.0

The mortality assumptions are that life expectancy from age 60 is currently 27.8 years for a man and 29.6 years for a woman but is expected to increase to 29.3 years for future male and 31.0 years for future female pensioners who retire in 2034.

	Value		
	2014 £m	2013 £m	2012 £m
Land	**13.3**	12.9	13.8
Equities, property and other return-seeking assets	**644.9**	608.1	513.2
PFI assets	**7.3**	7.1	7.6
Government bonds, cash, swaps and collateral	**171.6**	155.6	187.3
Total market value of assets	**837.1**	783.7	721.9
Present value of liabilities	**(900.2)**	(832.4)	(780.9)
Deficit	**(63.1)**	(48.7)	(59.0)
Related deferred tax asset	**12.6**	11.2	14.2
Net pension liability	**(50.5)**	(37.5)	(44.8)

IAS 19 requires that the discount rate is determined by reference to high quality corporate bonds in the UK that match the estimated term of the pension obligations. This year, we have assumed that 'high quality' corporate bonds are those which at least one rating agency considers to be at least AA (or equivalent). In previous years, we had required that the majority of the rating agencies rated a bond as AA for us to consider it a high quality corporate bond. This represents a change in the basis of estimation applied in prior periods, and has had the impact of decreasing the defined benefit obligation in the Kier Group Pension Scheme by around £32m at 30 June 2014.

Kier Sheffield LLP

	2014 %	2013 %	2012 %
Rate of general increases in pensionable salaries	**4.4**	4.5	4.0
Discount rate	**4.4**	4.7	4.7
Inflation rate (RPI)	**3.4**	3.5	3.0
Inflation rate (CPI)	**2.4**	2.5	2.0

The mortality assumptions are that life expectancy from age 60 is currently 27.7 years for a man and 30.5 years for a woman but is expected to increase to 30.1 years for future male and 33.0 years for future female pensioners who retire in 2034.

	Value		
	2014 £m	2013 £m	2012 £m
Equities and property	**–**	128.4	120.7
Corporate bonds	**–**	12.1	13.0
Government bonds	**–**	42.4	27.5
Total market value of assets	**–**	182.9	161.2
Present value of liabilities	**–**	(183.9)	(160.0)
(Deficit)/surplus	**–**	(1.0)	1.2
Related deferred tax asset/(liability)	**–**	0.2	(0.3)
Net pension (liability)/asset	**–**	(0.8)	0.9

Other defined benefit schemes (May Gurney and TransLinc)

	2014 %	8 July 2013 %
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.2**	3.2
Discount rate	**4.4**	4.7
Inflation rate (RPI)	**3.4**	3.5
Inflation rate (CPI)	**2.4**	2.5

The mortality assumptions are that life expectancy from age 60 is currently 26.4 years for a man and 28.8 years for a woman but is expected to increase to 28.0 years for future male and 30.4 years for future female pensioners who retire in 2034.

	2014 £m	8 July 2013 £m
Equities, property and other return-seeking assets	**38.0**	44.2
Government bonds and cash	**36.6**	26.9
Total market value of assets	**74.6**	71.1
Present value of liabilities	**(71.3)**	(67.4)
Surplus	**3.3**	3.7
Related deferred tax liability	**(0.7)**	(0.7)
Net pension asset	**2.6**	3.0

8 Retirement benefit obligations continued

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

	2014				2013†		
	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Other £m	Total £m	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Total £m
(Charged)/credited to operating profit in the income statement							
Current service cost	**(9.3)**	**(2.5)**	**–**	**(11.8)**	(9.8)	(2.8)	(12.6)
Administration expenses	**(0.9)**	**–**	**–**	**(0.9)**	(0.4)	–	(0.4)
Past service cost (including curtailments)	**–**	**(0.9)**	**–**	**(0.9)**	–	(0.1)	(0.1)
Settlement credit	**–**	**1.4**	**–**	**1.4**	–	–	–
Net interest on net defined benefit obligation	**(1.9)**	**–**	**0.1**	**(1.8)**	(3.0)	0.1	(2.9)
Pension (expense)/credit recognised in profit and loss	**(12.1)**	**(2.0)**	**0.1**	**(14.0)**	(13.2)	(2.8)	(16.0)
Remeasurement in other comprehensive income							
Actual return in excess of that recognised in net interest	**36.4**	**5.1**	**2.5**	**44.0**	31.5	14.2	45.7
Actuarial losses due to changes in financial assumptions	**(44.4)**	**(7.5)**	**(3.4)**	**(55.3)**	(38.1)	(15.4)	(53.5)
Actuarial losses due to changes in demographic assumptions	**(7.7)**	**(8.4)**	**–**	**(16.1)**	–	–	–
Actuarial gains/(losses) due to liability experience	**(3.0)**	**11.7**	**–**	**8.7**	0.7	–	0.7
Total amount recognised in full	**(18.7)**	**0.9**	**(0.9)**	**(18.7)**	(5.9)	(1.2)	(7.1)
Changes in the fair value of scheme assets							
Fair value at 1 July	**783.7**	**182.9**	**–**	**966.6**	721.9	161.2	883.1
Acquired in the year	**–**	**–**	**71.1**	**71.1**	–	–	–
Interest income on scheme assets	**36.4**	**6.5**	**3.3**	**46.2**	33.0	7.6	40.6
Remeasurement gains on scheme assets	**36.4**	**5.1**	**2.5**	**44.0**	31.5	14.2	45.7
Contributions by the employer	**16.4**	**2.1**	**0.3**	**18.8**	29.4	1.8	31.2
Contributions by scheme participants	**0.1**	**0.8**	**–**	**0.9**	0.1	1.1	1.2
Net benefits paid out	**(35.0)**	**(4.3)**	**(2.6)**	**(41.9)**	(31.8)	(3.0)	(34.8)
Administration expenses	**(0.9)**	**–**	**–**	**(0.9)**	(0.4)	–	(0.4)
Transfer out	**–**	**(193.1)**	**–**	**(193.1)**	–	–	–
Fair value at 30 June	**837.1**	**–**	**74.6**	**911.7**	783.7	182.9	966.6
Changes in the present value of the defined benefit obligation							
Fair value at 1 July	**(832.4)**	**(183.9)**	**–**	**(1,016.3)**	(780.9)	(160.0)	(940.9)
Acquired in the year	**–**	**–**	**(67.4)**	**(67.4)**	–	–	–
Current service cost	**(9.3)**	**(2.5)**	**–**	**(11.8)**	(9.8)	(2.8)	(12.6)
Interest expense on scheme liabilities	**(38.3)**	**(6.5)**	**(3.1)**	**(47.9)**	(36.0)	(7.5)	(43.5)
Past service cost	**–**	**(0.9)**	**–**	**(0.9)**	–	(0.1)	(0.1)
Settlement	**–**	**1.4**	**–**	**1.4**	–	–	–
Actuarial losses due to changes in financial assumptions	**(44.4)**	**(7.5)**	**(3.4)**	**(55.3)**	(38.1)	(15.4)	(53.5)
Actuarial losses due to changes in demographic assumptions	**(7.7)**	**(8.4)**	**–**	**(16.1)**	–	–	–
Actuarial (losses)/gains due to liability experience	**(3.0)**	**11.7**	**–**	**8.7**	0.7	–	0.7
Contributions by scheme participants	**(0.1)**	**(0.8)**	**–**	**(0.9)**	(0.1)	(1.1)	(1.2)
Net benefits paid out	**35.0**	**4.3**	**2.6**	**41.9**	31.8	3.0	34.8
Transfer out	**–**	**193.1**	**–**	**193.1**	–	–	–
Fair value at 30 June	**(900.2)**	**–**	**(71.3)**	**(971.5)**	(832.4)	(183.9)	(1,016.3)
Amounts included in the balance sheet							
Fair value of scheme assets	**837.1**	**–**	**74.6**	**911.7**	783.7	182.9	966.6
Net present value of the defined benefit obligation	**(900.2)**	**–**	**(71.3)**	**(971.5)**	(832.4)	(183.9)	(1,016.3)
Net (deficit)/surplus	**(63.1)**	**–**	**3.3**	**(59.8)**	(48.7)	(1.0)	(49.7)
Related deferred tax asset/(liability)	**12.6**	**–**	**(0.7)**	**11.9**	11.2	0.2	11.4
Net pension (liability)/asset	**(50.5)**	**–**	**2.6**	**(47.9)**	(37.5)	(0.8)	(38.3)

† Restated on adoption of the amendment to IAS 19 (see note 31).

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

	2014 £m	2013† £m	2012 £m	2011 £m	2010 £m
Fair value of scheme assets	**911.7**	966.6	883.1	839.7	746.3
Net present value of the defined benefit obligation	**(971.5)**	(1,016.3)	(940.9)	(869.3)	(833.5)
Net deficit	**(59.8)**	(49.7)	(57.8)	(29.6)	(87.2)
Related deferred tax asset	**11.9**	11.4	13.9	7.7	24.4
Net pension liability	**(47.9)**	(38.3)	(43.9)	(21.9)	(62.8)
Difference between expected and actual return on scheme assets	**44.0**	45.7	(6.1)	47.0	82.8
Experience gains/(losses) on scheme liabilities	**8.7**	0.7	(42.9)	(34.4)	(93.0)

† Restated on adoption of the amendment to IAS 19 (see note 31).

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.

Pension sensitivity

The following table shows the change in surplus/(deficit) arising from a change in the significant actuarial assumptions used to determine the retirement benefits obligations for the Kier Group Pension Scheme:

	2014		2013	
	+0.25%/+1 year £m	**-0.25%/-1 year £m**	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+0.25%, -0.25%)	**41.1**	**(41.4)**	36.5	(36.5)
Inflation rate (+0.25%, -0.25%)	**(20.3)**	**20.3**	(22.0)	22.0
Increase in life expectancy (+/- 1 year)	**(28.7)**	**28.7**	(26.5)	26.5

The sensitivity analysis above has been determined based on reasonably possible changes of the respective assumptions occuring at the end of the reporting period and may not be representative of the actual change. It is based on a change in a key assumption while holding all other assumptions constant. When calculating the sensitivity to the assumption, the same method used to calculate the liability recognised in the balance sheet has been applied. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared with the previous period.

9 Taxation
(a) Recognised in the income statement

	2014 Underlying items* £m	2014 Non-underlying items including amortisation of intangible contract rights* £m	2014 Total £m	2013 Underlying items*† £m	2013 Non-underlying items including 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 (see note 4).

† Restated on adoption of the amendment to IAS 19 (see note 31).

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.

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 (including effect of change in tax rate)		
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 benefit pension schemes	**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 31).

(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%, that 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.

10 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 c£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.

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, 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 31).
* 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 (see note 24 for further details).

12 Intangible assets

	Goodwill £m	Intangible contract rights £m	Computer software £m	Total £m
Cost				
At 30 June 2012	13.4	33.4	4.5	**51.3**
Additions	–	5.5	–	**5.5**
At 30 June 2013	13.4	38.9	4.5	**56.8**
Additions	1.2	0.5	4.5	**6.2**
Acquired	194.7	106.7	–	**301.4**
Disposals	(0.7)	(1.6)	–	**(2.3)**
At 30 June 2014	**208.6**	**144.5**	**9.0**	**362.1**
Amortisation				
At 30 June 2012	–	(22.2)	(0.3)	**(22.5)**
Charge for the year	–	(3.4)	(0.9)	**(4.3)**
At 30 June 2013	–	(25.6)	(1.2)	**(26.8)**
Charge for year	–	(10.8)	(1.1)	**(11.9)**
Disposals	–	0.4	–	**0.4**
At 30 June 2014	**–**	**(36.0)**	**(2.3)**	**(38.3)**
Net book value				
At 30 June 2014	**208.6**	**108.5**	**6.7**	**323.8**
At 30 June 2013	13.4	13.3	3.3	30.0

Goodwill relates to the acquisition of May Gurney (£194.7m), Kier Partnership Homes Limited (£5.2m), Pure Recycling Limited (£4.8m), Beco Limited (£2.6m), Kier Developments Limited (£0.1m), Kier Sydenham Limited Partnership (£0.5m) and Lingfield (Catterick) Ltd (£0.7m). These balances have been subject to an annual impairment review based upon the projected profits and cash flows of each business.

The cost of contract rights primarily relates to:

- The acquisition of the businesses and assets of the construction and business services operations of Sheffield City Council (£21.3m), Harlow Council (£0.8m), Stoke-on-Trent City Council (£1.9m) and North Tyneside Council (£6.5m). These contracts are in partnership with the respective councils who have retained a participatory ownership interest and the rights for a minority share in the profits. These profit shares are reflected in the income statement as minority interests. The amounts for the year to 30 June 2014 are: Sheffield City Council £0.2m (2013: £nil), Harlow Council £0.6m (2013: £0.5m), Stoke-on-Trent City Council credit £0.2m (2013: charge £0.3m) and North Tyneside Council £0.1m (2013: £0.2m);
- The acquisition of Pure Recycling Limited (£2.0m) and Stewart Milne (£1.0m);
- The acquisition of a commercial refuse collections business from Wealdon District Council (£3.6m); and
- The acquisition of May Gurney (£106.7m).

Contract rights on May Gurney are amortised on a straight-line basis over the expected total contract duration. All other contract rights are amortised on a straight-line basis over the remaining contract life.

Notes to the consolidated financial statements
For the year ended 30 June 2014 continued

12 Intangible assets continued
Carrying amounts of goodwill and intangible contract rights by CGU

	Goodwill £m	Intangible contract rights £m	2014 Total £m	Goodwill £m	Intangible contract rights £m	2013 Total £m
Construction	**6.9**	**4.3**	**11.2**	–	0.9	0.9
Property	**6.4**	**0.6**	**7.0**	6.0	1.6	7.6
Services	**195.3**	**103.6**	**298.9**	7.4	10.8	18.2
	208.6	**108.5**	**317.1**	13.4	13.3	26.7

For impairment testing purpose the goodwill has been allocated to the above three trading segments. The recoverable amount of the goodwill and intangibles has been determined based on value in use calculations. The calculations use cash flow projections based on the Group's forecasts, approved by management, covering a three-year period.

The resulting cash flows are discounted to present value, with the discount rate used in the value in use calculations based on the Group's weighted average cost of capital, adjusted as necessary to reflect the risk associated with the assets being tested.

The key assumptions in the value in use calculations are the forecast revenues and gross margins during the forecast period and the discount rates applied to future cash flows. Cash flows for periods beyond those forecast have a terminal growth rate assumption applied.

Significant headroom exists in all segments and management considers that any reasonably possible change in the key assumptions would not lead to an impairment being recognised.

Services segment

A revenue growth rate of 2% and a fixed operating margin of 5% have been applied to the Services segment cash flows into perpetuity. These assumptions are in line with current trading and current forecasts of UK GDP growth rate. The pre-tax discount rate used is 9.1%.

Based on the value in use calculation, these assumptions derived a recoverable amount for the Services segment that is £531m above the carrying value of segmental assets.

The Services CGU impairment review is sensitive to changes in the key assumptions; discount rate, revenue growth rate and the operating margin, although management do not consider that any reasonable possible change in any single assumption would give rise to an impairment of the carrying value of goodwill and intangibles. The assumptions would have to change as follows for any single assumption change to bring headroom down to £nil:

Discount rate – increase from 9.1% to 18.1%

Growth rate – reduce from positive 2% to negative 7.7%

Underlying operating margin – reduce from 5% to 1.6%

13 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Mining £m	Total £m
Cost				
At 30 June 2012	51.5	87.0	44.4	**182.9**
Additions	8.8	12.7	5.5	**27.0**
Disposals	(0.1)	(6.3)	–	**(6.4)**
Transferred to assets held for sale	–	(12.5)	–	**(12.5)**
Currency realignment	–	0.2	–	**0.2**
At 30 June 2013	60.2	81.1	49.9	**191.2**
Acquired	7.3	158.8	–	**166.1**
Additions	6.7	39.5	2.0	**48.2**
Disposals	(2.4)	(42.6)	–	**(45.0)**
Currency realignment	–	(1.2)	–	**(1.2)**
At 30 June 2014	**71.8**	**235.6**	**51.9**	**359.3**
Accumulated depreciation				
At 30 June 2012	(4.6)	(52.0)	(23.5)	**(80.1)**
Charge for the year	(1.5)	(8.1)	(3.1)	**(12.7)**
Disposals	0.1	5.1	–	**5.2**
Transferred to assets held for sale	–	5.7	–	**5.7**
Currency realignment	–	(0.1)	–	**(0.1)**
At 30 June 2013	(6.0)	(49.4)	(26.6)	**(82.0)**
Acquired	(3.2)	(75.8)	–	**(79.0)**
Charge for the year	(2.2)	(32.3)	(7.0)	**(41.5)**
Disposals	1.1	35.6	–	**36.7**
Impairment	(2.0)	–	–	**(2.0)**
Currency realignment	–	0.9	–	**0.9**
At 30 June 2014	**(12.3)**	**(121.0)**	**(33.6)**	**(166.9)**
Net book value				
At 30 June 2014	**59.5**	**114.6**	**18.3**	**192.4**
At 30 June 2013	54.2	31.7	23.3	109.2

The net book value of plant and equipment includes an amount of £81.2m (2013: £13.7m) in respect of assets held under finance leases (see note 21).

14 Investment in joint ventures

(a) Movements in year

	2014 £m	2013 £m
Investment in joint ventures		
At 1 July	**29.7**	7.5
Additions	**11.7**	21.7
Loan repayments	**0.4**	–
Disposals	**(13.7)**	(3.2)
Share of:		
Operating profit	**1.9**	0.7
Finance costs	**(0.2)**	–
Taxation	**(0.1)**	0.2
Post-tax results of joint ventures	**1.6**	0.9
Net income recognised directly in equity	**15.1**	4.7
Deferred tax credit on items recognised directly in equity	**(3.6)**	(1.7)
Dividends received	**(0.3)**	(0.2)
At 30 June	**40.9**	29.7

(b) Analysis of investment

	2014 £m	2013 £m
Investment in joint ventures		
Property, plant and equipment	**33.9**	28.3
Deferred tax assets	**0.7**	4.3
Other non-current assets	**38.0**	116.4
Current assets	**29.9**	35.4
Gross assets	**102.5**	184.4
Trade and other payables – current	**(7.5)**	(19.2)
Borrowings – current	**(3.4)**	–
Borrowings – non-current	**(56.6)**	(130.9)
Financial instruments	**(1.8)**	(15.8)
Deferred tax liabilities	**–**	(0.4)
Net external assets	**33.2**	18.1
Loans provided to joint ventures	**7.7**	11.6
Total investment in joint ventures	**40.9**	29.7

The Group has provided guarantees to support borrowing facilities of joint ventures as follows:

	Borrowing facility £m	Guarantee £m	Drawn at June 2014 £m	Borrowing facility £m	Guarantee £m	Drawn at June 2013 £m
Solum Regeneration (Epsom) LP	**15.0**	**7.5**	**5.0**	19.0	9.5	10.2
Kier Sydenham LP	**36.0**	**36.0**	**31.5**	36.0	36.0	32.5
Biogen (UK) Limited	**22.0**	**22.0**	**9.0**	12.0	12.0	–
	73.0	**65.5**	**45.5**	67.0	57.5	42.7

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 112.

15 Deferred tax

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

	Intangible assets £m	Property, plant and equipment £m	Short-term temporary differences £m	Retirement benefit obligations* £m	Tax losses £m	Total* £m
At 30 June 2012	(0.7)	0.3	12.2	13.9	2.2	**27.9**
Credit/(charge) to income	0.1	2.5	(3.9)	(1.3)	0.2	**(2.4)**
Credit direct to comprehensive income	–	–	–	(1.2)	–	**(1.2)**
Share-based payments charged to equity	–	–	(0.8)	–	–	**(0.8)**
At 30 June 2013	(0.6)	2.8	7.5	11.4	2.4	**23.5**
Acquired	(21.3)	1.9	2.9	(0.8)	5.9	**(11.4)**
Credit/(charge) to income	1.6	–	(6.7)	6.2	(5.4)	**(4.3)**
Credit direct to comprehensive income	–	–	(1.6)	(4.9)	–	**(6.5)**
Share-based payments charged to equity	–	–	0.5	–	–	**0.5**
At 30 June 2014	**(20.3)**	**4.7**	**2.6**	**11.9**	**2.9**	**1.8**

* Restated on adoption of the amendment to IAS 19 (see note 31).

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

	Assets		Liabilities		Total	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Intangible assets	**–**	–	**(20.3)**	(0.6)	**(20.3)**	(0.6)
Property, plant and equipment	**6.7**	4.9	**(2.0)**	(2.1)	**4.7**	2.8
Inventories	**3.3**	6.1	**–**	–	**3.3**	6.1
Payables	**8.7**	12.3	**(11.3)**	(11.8)	**(2.6)**	0.5
Retirement benefit obligations	**11.9**	11.5	**–**	–	**11.9**	11.5
Share-based payments	**1.9**	0.8	**–**	–	**1.9**	0.8
Tax losses	**2.9**	2.4	**–**	–	**2.9**	2.4
Total	**35.4**	38.0	**(33.6)**	(14.5)	**1.8**	23.5
Set-off tax	**(33.6)**	(14.5)	**33.6**	14.5	**–**	–
Net tax assets	**1.8**	23.5	**–**	–	**1.8**	23.5

16 Inventories

	2014 £m	2013 £m
Raw materials and consumables	**23.9**	4.1
Construction contracts in progress (note 17)	**92.4**	63.3
Land and work in progress held for development	**331.4**	322.2
Other work in progress	**22.7**	9.8
	470.4	399.4

17 Construction contracts

Contracts in progress at the balance sheet date comprise contract costs incurred plus recognised profits less losses of £6,875.8m (2013: £7,576.3m), less progress billings received and receivable of £7,120.2m (2013: £7,845.3m).

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

	2014 £m	2013 £m
Inventories (note 16)	**92.4**	63.3
Trade and other payables (note 22)	**(336.8)**	(332.3)
	(244.4)	(269.0)

18 Trade and other receivables

	2014 £m	2013 £m
Current:		
Trade receivables	**358.4**	233.1
Construction contract retentions	**86.3**	38.8
Amounts receivable from joint ventures	**4.2**	0.9
Other receivables	**67.1**	30.6
Prepayments and accrued income	**59.1**	42.2
Other taxation and social security	**11.3**	–
	586.4	345.6
Non-current:		
Construction contract retentions	**12.0**	16.1
Other receivables	**11.5**	13.5
	23.5	29.6

19 Assets held for sale

	2014 £m	2013 £m
Assets held for sale	**10.4**	4.2

This represents the assets of Justice Support Services (Norfolk and Suffolk) Holdings Limited, purchased by the Property division on 31 March 2014 and held for resale (2013: relates to the plant business' tower crane assets, sold by the Services division on 5 August 2013). Further details of these acquisitions and disposals are provided in note 30.

20 Cash, cash equivalents and borrowings

	2014 £m	2013 £m
Cash and cash equivalents – 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 (borrowings)/funds	**(122.8)**	59.8

Cash and cash equivalents include £31.9m (2013: £30.4m) being the Group's share of cash and cash equivalents held by joint arrangements, £80.4m (2013: £48.3m) of cash that cannot be offset against other Group bank balances and £0.1m of restricted cash (2013: £3m).

Information on borrowings is detailed in note 27.

21 Finance lease obligations

	2014			2013		
	Future minimum lease payments £m	**Interest £m**	**Present value of minimum lease payments £m**	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
At 1 July	**14.8**	**(1.1)**	**13.7**	9.6	(1.0)	8.6
New obligations	**43.1**	**(2.8)**	**40.3**	7.1	(0.5)	6.6
Acquired obligations	**66.8**	**(4.2)**	**62.6**	–	–	–
Repayments	**(32.3)**	**2.7**	**(29.6)**	(1.9)	0.4	(1.5)
At 30 June	**92.4**	**(5.4)**	**87.0**	14.8	(1.1)	13.7

Finance lease liabilities are payable as follows:

	2014			2013		
	Future minimum lease payments £m	**Interest £m**	**Present value of minimum lease payments £m**	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
Less than one year	**29.5**	**(1.9)**	**27.6**	3.1	(0.4)	2.7
Between two and five years	**61.7**	**(3.5)**	**58.2**	10.9	(0.6)	10.3
Over five years	**1.2**	**–**	**1.2**	0.8	(0.1)	0.7
At 30 June	**92.4**	**(5.4)**	**87.0**	14.8	(1.1)	13.7

22 Trade and other payables

	2014 £m	2013 £m
Current:		
Payments received on account	**13.0**	7.6
Trade payables	**338.8**	185.9
Sub-contract retentions	**49.5**	55.2
Construction contract balances (note 17)	**336.8**	332.3
Deferred consideration on acquisitions	**1.0**	27.7
Other taxation and social security	**37.2**	27.8
Other payables	**34.7**	22.0
Accruals and deferred income	**170.4**	96.0
Due to external joint ventures	**1.3**	–
	982.7	754.5
Non-current:		
Trade payables	**0.9**	0.8
Sub-contract retentions	**6.3**	4.3
Accruals and deferred income	**2.1**	1.0
	9.3	6.1

23 Provisions

	2014				2013			
	Insurance claims £m	Restoration of mining sites £m	Other provisions £m	Total £m	Insurance claims £m	Restoration of mining sites £m	Other provisions £m	Total £m
At 1 July	**27.2**	**16.8**	**13.4**	**57.4**	19.6	13.7	16.3	49.6
Additions	**8.4**	**–**	**0.8**	**9.2**	13.1	4.9	6.9	24.9
Arising on acquisition	**–**	**–**	**56.5**	**56.5**	–	–	–	–
Utilised	**(10.2)**	**–**	**(28.2)**	**(38.4)**	(5.5)	(3.1)	(9.8)	(18.4)
Unwinding of discount	**–**	**1.1**	**4.9**	**6.0**	–	1.3	–	1.3
Transfers	**(8.0)**	**(0.1)**	**1.1**	**(7.0)**	–	–	–	–
At 30 June	**17.4**	**17.8**	**48.5**	**83.7**	27.2	16.8	13.4	57.4

Insurance provisions are in respect of legal and other disputes in various Group companies. Mining provisions represent the cost of restoration of opencast mining activities, see note 1 – mining assets. Other provisions primarily represent contractual obligations on cessation of certain contracts and fair value provisions of £33.3m arising on the acquisition of May Gurney (see note 30b).

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

	2014 £m	2013 £m
Due within one year	**27.9**	17.6
Due after one year	**55.8**	39.8
	83.7	57.4

Due to the nature of the provision for insurance claims, the timing of any potential future outflows in respect of these liabilities is uncertain.

Future outflows in respect of the restoration of mining sites are expected to occur over the next three to eight years and future outflows in respect of other provisions are expected to occur over the next 12 years.

24 Share capital and reserves

Share capital

The share capital of the Company comprises:

	2014		2013	
	Number	£m	Number	£m
Issued and fully paid ordinary shares of 1p each	**55,264,354**	**0.6**	39,848,072	0.4

On 8 July 2013 14,714,445 shares were issued in connection with the acquisition of May Gurney at a premium of £183,636,274 which was credited to the merger reserve. See note 30b for further details. During the year 491,764 shares were issued as a scrip dividend alternative at a premium of £8,206,868 and 210,073 shares were issued under the Sharesave Scheme at a premium of £2,168,532.

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

Cash flow hedge reserve

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

Translation reserve

This reserve comprises the cumulative difference on exchange arising from the retranslation of net investments in overseas subsidiary undertakings. In accordance with the transitional provisions of IFRS1, this reserve was set to nil at 1 July 2004.

Merger reserve

The merger reserve arose primarily on the shares issued at a premium to acquire May Gurney on 8 July 2013.

25 Share-based payments

Options and awards over the Company's ordinary shares at 30 June 2014 were as follows:

				Formerly May Gurney					
	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	LTIP 2012 award	LTIP 2013 award	LTIP 2014 award	
Date of grant	28 Apr 2011	27 Apr 2012	03 May 2013	6 Aug 2011	30 July 2012	17 Nov 2011	13 Sept 2012	21 Oct 2013	Total
Awards outstanding at 30 June 2014									
– directors	–	–	–	–	–	78,872	95,815	77,091	251,778
– employees	76,645	484,398	338,578	70,928	127,850	424,437	490,521	478,820	2,492,177
	76,645	**484,398**	**338,578**	**70,928**	**127,850**	**503,309**	**586,336**	**555,911**	**2,743,955**
Exercise price (pence)	1,150	1,050	1,050	880	743	Nil	Nil	Nil	

Sharesave Scheme

No options were granted in the year. Options under the Sharesave Scheme are all equity settled. The weighted average market price of Kier Group plc shares at the date of exercise of options was 1,473 pence.

Long Term Incentive Plan (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. Awards under the LTIP are all equity settled.

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

	Number of shares	**2014 £m**	Number of shares	2013 £m
At 1 July	**455,686**	**6.1**	612,489	10.1
Purchased during the year	**–**	**–**	140,546	2.0
May Gurney at date of acquisition	**519,881**	**6.0**	–	–
Issued in satisfaction of awards and other schemes	**(238,775)**	**(2.8)**	(297,349)	(6.0)
At 30 June	**736,792**	**9.3**	455,686	6.1

The market value of these shares at 30 June 2014 was £13.0m (2013: £5.2m). 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 67 to 85.

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 Schemes

				Formerly May Gurney	
Date of grant	28 April 2011	27 April 2012	3 May 2013	6 August 2011	30 July 2012
Share price at grant (pence)	1,330.0	1,172.0	1,187.0	1,268.0	1,268.0
Exercise price (pence)	1,150.0	1,050.0	1,050.0	880.0	743.0
Option life (years)	3.0	3.0	3.0	1.36	2.36
Expected volatility	38.5%	32.8%	27.2%	23.3%	27.8%
Dividend yield	4.5%	5.6%	5.6%	5.2%	5.2%
Risk-free interest rate	1.6%	0.7%	0.4%	0.4%	0.5%
Value per option (pence)	325.0	209.7	174.6	324.5	419.7

Former options under the May Gurney scheme granted to May Gurney employees were converted to options over Kier Group plc shares at the acquisition date. The option life shown above is the period from acquisition.

25 Share-based payments continued

Long Term Incentive Plan (LTIP)

Date of grant	17 November 2011 (EPS element)	17 November 2011 (TRS element)	13 September 2012 (EPS element)	13 September 2012 (TSR element)	21 October 2013 (EPS element)	21 October 2013 (TSR element)
Share price at grant (pence)	1,398	1,398	1,399	1,399	1,797	1,797
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Option life (years)	3	3	3	3	3	3
Expected volatility	n/a	31.6%	n/a	28.1%	n/a	28.6%
Dividend yield	4.6%	4.6%	4.7%	4.7%	3.8%	3.8%
Risk-free interest rate	n/a	0.7%	n/a	0.4%	n/a	0.8%
Value per option (pence)	1,218.5	868.9	1,214.3	627.8	1,604.2	1,366.7

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.

£4.0m relating to share-based payments has been recognised in the income statement as employee costs (2013: £4.0m). Included in other payables is an amount of £0.5m (2013: £0.3m) relating to provisions for employer's national insurance.

A reconciliation of option movements is shown below:

		2014		2013
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at 1 July	**3,057,902**	**464.9p**	3,483,182	533.8p
Converted from May Gurney schemes	**345,201**	**744.0p**	–	–
Forfeited	**(636,895)**	**265.8p**	(331,015)	381.6p
Exercised	**(592,482)**	**674.6p**	(1,192,027)	578.5p
Granted	**570,229**	**–**	1,097,762	504.3p
Outstanding at 30 June	**2,743,955**	**404.3p**	3,057,902	464.9p
Exercisable at 30 June	**–**	**–**	–	–

The options outstanding at 30 June 2014 have a weighted average remaining contractual life of 1.27 years (2013: 1.59 years).

26 Guarantees and contingent liabilities

There are contingent liabilities in respect of performance bonds, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures, entered into in the normal course of business.

27 Financial instruments

Capital risk management

The Group's capital management objectives are: to ensure the Group's ability to continue as a going concern; to optimise the capital structure in order to minimise the cost of capital; and to maintain a strong balance sheet to support business development and tender qualification. The three operating divisions of the Group have complementary capital characteristics, with the Construction division, and to a lesser extent the Services division, generating a net cash surplus, whilst the Property division requires net capital to fund developments. The Group's capital management strategy is to use a blend of capital types with different risk, return and maturity profiles to support the operating divisions and deliver the Group's capital management objectives. The Group's overall capital risk management strategy remains unchanged from 2013.

The capital structure of the Group comprises: equity, consisting of share capital, share premium, retained earnings and other reserves as disclosed in the consolidated statement of changes in equity; and cash, cash equivalents and borrowings as disclosed in note 20 and described further below. The Group forecasts and monitors short, medium and longer-term capital needs on a regular basis and adjusts its capital structure as required through the payment of dividends to shareholders, the issue of new share capital and the increase or repayment of borrowings. All investment decisions are made with regard to the Group's weighted average cost of capital and typically a pre-tax annualised return of at least 15% is required to ensure such investments are value enhancing for shareholders.

Financial risk management

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

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

Credit risk

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

Policies and procedures exist to ensure that customers have an appropriate credit history. The Group's most significant clients are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the client.

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

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

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

	2014 £m	2013 £m
Provision as at 1 July	1.3	1.2
Acquired in the year	1.8	–
Charged/(credited) to the income statement	(0.8)	0.1
Provision as at 30 June	2.3	1.3

There were £48.8m (2013: £13.2m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £37.8m (2013: £7.7m) had been received by the end of August 2014. There are no indications as at 30 June 2014 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 2014 that were overdue for payment was 13.6% (2013: 5.7%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Construction	36 days (2013: 46 days)
Services	41 days (2013: 34 days)

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

27 Financial instruments continued

Market risk

Interest rate risk

The Group has borrowing facilities to finance short-term working capital requirements and term loans to finance medium-term capital requirements, which carry interest at floating rates, at a margin over LIBOR. The Group's borrowings can be analysed as follows:

	2014 £m	2013 £m
Fixed rate	**62.7**	62.7
Variable rate	**172.5**	29.8
	235.2	92.5

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 significant foreign currency exposures are identified, these are hedged using forward foreign exchange contracts or swaps.

Liquidity risk

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

Derivative financial instruments

At 30 June 2014	Current liabilities £m	Non-current liabilities £m	Total liabilities £m
Fuel price forward contracts	**0.1**	**0.3**	**0.4**

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

During 2013 Kier Group plc entered in to three cross-currency fixed interest rate swaps to hedge the interest rate and currency risk on a US dollar denominated loan, nominal value USD28m. These swaps have continued to meet the criteria for hedge accounting and as a result have been recognised directly in equity.

The following table indicates the periods in which the cashflows associated with cash flow hedges are expected to occur, how those cashflows will impact the income statement and the fair value of the related hedging instruments.

		Expected cash flows				
	Fair value £m	Total £m	0-1 years £m	1-2 years £m	2-5 years £m	More than 5 years £m
Interest rate swaps:						
Liabilities	**1.7**	**6.7**	**0.9**	**0.9**	**2.7**	**2.2**

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 2014 the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £111.4m. The Group's share of the total net fair value liability of these interest rate derivatives at 30 June 2014, based on quoted prices in active markets, amounted to £11.8m 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

Loans and receivables at amortised cost, cash and cash equivalents:

	2014 £m	2013 £m
Cash and cash equivalents	**112.4**	152.3
Trade and other receivables excluding prepayments	**550.8**	333.0
	663.2	485.3

Included in the above are £23.5m of trade and other receivables due after more than one year.

Financial liabilities – analysis of maturity dates

At 30 June 2014 the Group had the following financial liabilities together with the maturity profile of their contractual cash flows:

	Financial liabilities at amortised cost					
30 June 2014	**Trade and other payables* £m**	**Deferred consideration on acquisition £m**	**Borrowings £m**	**Finance lease obligations £m**	**Derivative financial instruments £m**	**Total £m**
Carrying value	**940.8**	**1.0**	**235.2**	**87.0**	**2.1**	**1,266.1**
Contractual cash flows						
Less than one year	**931.5**	**1.0**	**45.0**	**29.5**	**1.0**	**998.6**
One to two years	**9.3**	**–**	**5.2**	**24.3**	**1.0**	**48.9**
Two to three years	**–**	**–**	**84.1**	**21.0**	**1.1**	**106.2**
Three to four years	**–**	**–**	**3.5**	**11.4**	**0.9**	**15.8**
Four to five years	**–**	**–**	**55.1**	**5.0**	**0.9**	**61.0**
Over five years	**–**	**–**	**66.7**	**1.2**	**2.2**	**70.1**
	940.8	**1.0**	**259.6**	**92.4**	**7.1**	**1,300.9**
30 June 2013†						
Carrying value	697.5	27.7	92.5	13.7	0.6	832.0
Contractual cash flows						
Less than one year	691.4	28.1	2.9	3.1	0.1	725.6
One to two years	6.1	–	2.9	3.0	0.2	12.2
Two to three years	–	–	2.9	3.0	0.3	6.2
Three to four years	–	–	32.9	2.8	–	35.7
Four to five years	–	–	2.9	2.1	–	5.0
Over five years	–	–	71.8	0.8	–	72.6
	697.5	28.1	116.3	14.8	0.6	857.3

* Trade and other payables excludes deferred consideration, deferred income, taxes and social security and payments on account.
† The prior year comparatives have been re-presented to include sub-contract retentions, construction contract balances and accruals.

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

The Group's derivatives are classified as level 2.

Borrowings and borrowing facilities

The Group has the following unsecured committed facilities:

- Revolving credit facility £190m, at a margin over LIBOR, due for renewal in September 2018, £55.0m drawn at 30 June 2014 (2013: £nil)
- Two term loans at a margin over LIBOR, £50m repayable September 2016 and £30m, repayable January 2017, fully drawn at 30 June 2014, £80m (2013: £30m); and
- Two loan notes, principal amounts of £45m and USD28m with fixed coupons of between 4.2% and 4.9%, repayable in two repayments, December 2019 and December 2022, fully drawn at 30 June 2014, £62.7m (2013: £62.7m).

In addition the Group has an unsecured overdraft of £45m (2013: £20m), at a margin over LIBOR, repayable on demand, £39.8m drawn at 30 June 2014 (2013: £nil).

The committed 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 net worth. The Group has complied with these covenants throughout the period.

Included within borrowing are capitalised loan fees of £2.3m (2013: £0.2m).

28 Financial and capital commitments

	2014 £m	2013 £m
Commitments for capital expenditure	**7.3**	2.3
Commitments for equity and subordinate debt in PFI joint ventures	**23.4**	25.2
	30.7	27.5

Non-cancellable operating lease rentals are payable as follows:

	2014		2013	
	Property £m	**Plant and machinery £m**	Property £m	Plant and machinery £m
Within one year	**6.3**	**19.7**	4.3	16.5
Between one and five years	**16.4**	**23.9**	7.7	25.2
Over five years	**11.1**	**1.6**	6.3	2.3
	33.8	**45.2**	18.3	44.0

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period beyond 30 June 2014 of 14 years. Vehicle leases typically run for a period of four years. None of the leases include contingent rentals.

29 Related parties

Identity of related parties

The Group has a related party relationship with its joint arrangements, 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 67 to 85.

In addition to their salaries, the Group also provides non-cash benefits to directors and contributes to their pension arrangements as disclosed on page 77. Key management personnel also participate in the Group's share option programme (see note 25).

Key management personnel compensation comprised:

	2014 £m	2013 £m
Total emoluments as analysed in the directors' remuneration report	**3.2**	3.0
Employer's national insurance contributions	**0.4**	0.4
Total short-term employment benefits	**3.6**	3.4
Share-based payment charge	**0.7**	0.8
	4.3	4.2

Transactions with pension schemes

Details of transactions between the Group and pension schemes in which its employees participate are detailed in note 8.

Transactions with joint arrangements and joint ventures

	2014 £m	2013 £m
Staff and associated costs	**38.1**	42.3
Management services	**0.5**	0.7
Interest on loans to joint ventures	**1.5**	1.3
	40.1	44.3

Amounts due from joint ventures are analysed below:

	2014 £m	2013 £m
Information Resources (Oldham) Limited	**0.9**	0.9
Kier Hammersmith Limited	**6.6**	–
Salford Village Limited	**2.0**	–
Watford Health Campus Partnership LP	**0.2**	–
Biogen Holdings Limited	**(2.0)**	–
Justice Support Services (Norfolk and Suffolk) Limited	**–**	3.4
Justice Support Services (North Kent) Limited	**–**	1.9
Kent PFI Company 1 Limited	**–**	6.1
	7.7	12.3

30 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 2012	0.9	54.5	1.8	1.5	–	58.7
Credited to the income statement	(0.7)	–	–	(0.3)	–	(1.0)
Paid during the year to 30 June 2013	(0.3)	(30.0)	–	(1.2)	–	(31.5)
Unwinding of discount	0.2	1.2	0.1	–	–	1.5
Discounted balance payments at 30 June 2013	0.1	25.7	1.9	–	–	27.7
Acquisition of May Gurney (note 30b)	–	–	–	–	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**

30 Acquisitions and disposals continued

(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.

The pro forma consolidated results of the Group, as if the acquisition of May Gurney Integrated Services plc had been made at the beginning of the year, would include revenue from continuing operations of £2,999.9m (compared to the Group revenue of £2,985.2m) and underlying profit before taxation of £72.6m (compared to the reported underlying profit before taxation of £73.1m). In preparing the pro forma results, revenue and costs have been included as if the businesses were acquired on 1 July 2013 and the inter-company transactions have been eliminated. This information is not necessarily indicative of the results of the combined Group that would have occurred had the purchase actually been made at the beginning of the year, or indicative of the future results of the combined Group.

The May Gurney business contributed to the Group, revenue of £697m and underlying profit before taxation of £32.8m for the period 8 July 2013 to 30 June 2014.

(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 of the joint venture 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

30 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.

31. 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 IAS 19	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 IAS 19			
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**

Earnings per share (pence)	Basic	Diluted	Adjusted
As previously reported	95.8	94.8	136.2
Impact of amendment to IAS 19	(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.

32. Subsequent events

On 29 August 2014 the Group, through its subsidiary Kier Project Investment Limited, sold its 50% holding in Information Resources (Oldham) Holdings Limited for a total consideration of £2.4m. The expected impact of this disposal is a profit of £1.2m before disposal costs.

Company balance sheet
At 30 June 2014
(registered company number 2708030)

	Notes	2014 £m	2013 £m
Fixed assets			
Investments in subsidiaries	5	**384.2**	90.3
Current assets			
Debtors	6	**2.9**	8.7
Cash and cash equivalents		**156.7**	139.3
		159.6	148.0
Current liabilities			
Creditors – amounts falling due within one year	7	**(29.0)**	(39.7)
Net current assets		**130.6**	108.3
Total assets less current liabilities		**514.8**	198.6
Non-current liabilities			
Creditors – amounts falling due after more than one year	7	**(195.4)**	(92.5)
Net assets		**319.4**	106.1
Shareholders' funds			
Share capital	8	**0.6**	0.4
Share premium	9	**73.7**	63.3
Merger reserve	9	**184.8**	1.2
Capital redemption reserve	9	**2.7**	2.7
Profit and loss account	9	**57.6**	38.5
Total shareholders' funds	10	**319.4**	106.1

The financial statements were approved by the Board of directors on 17 September 2014 and were signed on its behalf by:

Haydn Mursell
Director

Notes to the Company financial statements
For the year ended 30 June 2014

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

Basis of preparation
The financial statements have been prepared under the historical cost convention, on the going concern basis and in accordance with applicable accounting standards and the Companies Act 2006.

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

Deferred taxation
In accordance with 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 the profit and loss account.

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

Financial instruments
The Company's principal financial assets and liabilities are cash at bank and borrowings. Cash at bank is carried in the balance sheet at nominal value. Borrowings are recognised initially at fair value and subsequently at amortised cost.

The consolidated financial statements include disclosures in note 27 under IFRS 7 which comply with FRS 29 'Financial Instruments and Disclosures'. Consequently, the Company has taken advantage of certain exemptions in FRS 29 from the requirement to present separate financial instrument disclosures for the Company.

2 Profit for the year
As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year.

The auditor's remuneration for audit services to the Company was £0.1m (2013: £0.1m).

3 Information relating to directors and employees
Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 67 to 85. The Company has no employees other than the directors.

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

5 Fixed assets – investments

	£m
Cost at 30 June 2013	**105.3**
Additions	**278.9**
Cost at 30 June 2014	**384.2**
Provision for diminution in value	
At 30 June 2013	**(15.0)**
Write back to the profit and loss account	**15.0**
At 30 June 2014	**–**

Net book value at	
30 June 2014	384.2
30 June 2013	90.3

The directors believe that the carrying value of investments is supported by the present value of the forecast future cash flows generated by those investments. Given the improvement in the future forecast cash flows of Kier Living Limited the provisions for the diminution in respect of this investment has been written back to the profit and loss account.

6 Debtors

	2014 £m	2013 £m
Other debtors	**2.6**	5.6
Deferred tax	**1.0**	0.7
Corporation tax	**(0.7)**	2.4
	2.9	8.7

7 Creditors

	2014 £m	2013 £m
Amounts falling due within one year:		
Amounts due to Group undertakings	**27.8**	36.8
Other creditors	**1.2**	2.9
	29.0	39.7

	2014 £m	2013 £m
Amounts falling due after more than one year:		
Borrowings	**195.4**	92.5

Further details on borrowings are included in note 27 to the consolidated financial statements.

8 Share capital

Details of the share capital of the Company are included in note 24 to the consolidated financial statements.

9 Reserves

The movement in reserves is as follows:

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 30 June 2012	0.4	55.0	1.2	2.7	38.7	**98.0**
Issue of own shares	–	8.3	–	–	–	**8.3**
Movement in provision for share-based payments	–	–	–	–	4.0	**4.0**
Purchase of own shares	–	–	–	–	(1.7)	**(1.7)**
Profit for the year	–	–	–	–	23.3	**23.3**
Dividends paid	–	–	–	–	(25.8)	**(25.8)**
At 30 June 2013	0.4	63.3	1.2	2.7	38.5	**106.1**
Issue of own shares	0.2	10.4	183.6	–	–	**194.2**
Movement in provision for share-based payments	–	–	–	–	3.7	**3.7**
Purchase of own shares	–	–	–	–	(1.1)	**(1.1)**
Profit for the year	–	–	–	–	53.8	**53.8**
Dividends paid	–	–	–	–	(37.3)	**(37.3)**
At 30 June 2014	**0.6**	**73.7**	**184.8**	**2.7**	**57.6**	**319.4**

Included in the profit and loss account is the balance on the sharescheme reserve which comprises the investment in own shares of £4.7m (2013: £6.0m) and a credit balance on the sharescheme reserve of £7.3m (2013: £7.0m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment schemes are included in note 25 to the consolidated financial statements.

Principal operating subsidiaries and business units

Construction

Kier Construction Limited

Building
- Central
- Eastern
- London
- Major Projects
- Northern
- Scotland
- Southern
- Western & Wales
- Strategic Frameworks and Alliances

Specialist businesses
- Engineering
- Process & Engineering

Kier Infrastructure and Overseas Limited

Services

Kier Services Limited

Housing Maintenance
- Kier Harlow Limited
- Kier Islington Limited
- Kier North Tyneside Limited
- Kier Sheffield LLP
- Kier Stoke Limited

Facilities Management
- Kier Facilities Services Limited

Environmental
- Pure Buildings Limited
- Pure Recycling Warwick Limited

Asset Management
- Kier Asset Partnership Services Limited

Energy Solutions
- Kier Energy Solutions Limited

Insurance Management
- Kier Insurance Management Services Limited

Plant and Fleet Management
- Kier Plant Limited

Kier May Gurney
- Kier MGIS Limited
- Kier MG Limited
- Kier MG Estates Limited
- Kier MG Recycling Limited
- Kier FPS Limited
- Tor2 Limited

Property

Kier Property Limited

Kier Developments Limited
Kier Ventures Limited

Kier Project Investment Limited

Kier Homes Limited
Kier Partnership Homes Limited

Corporate

Kier Limited

Notes:

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

ii) The Group has entered into partnership agreements with Harlow Council, North Tyneside Council, Sheffield City Council and Stoke-on-Trent City Council whereby the respective councils have a participating ownership interest and receive a minority share of the profits of Kier Harlow Limited, Kier North Tyneside Limited, Kier Sheffield LLP and Kier Stoke Limited.

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

iv) The Company has taken advantage of the exemption under section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results principally affected the financial statements. A full listing of all subsidiary undertakings will be annexed to the Company's next annual return.

Principal joint arrangements

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 Infrastructure and Overseas Limited, J Murphy & Sons Limited, Interserve Project Services Limited and Mouchel Limited
KMI	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited and Interserve Project Services Limited
Crossrail Contracts 300/410/435	a joint arrangement between Kier Infrastructure and Overseas Limited, BAM Nuttall Limited and Ferrovial Agroman (UK) Limited
Crossrail Contracts 501/511	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited
Hinkley Point C	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited

The following joint arrangements, in which the Group participation is between 30% and 65%, operate overseas in the territory indicated:

Hong Kong

MTRC Contract 824	a joint arrangement between Kier Infrastructure and Overseas Limited, Kaden Construction Limited and Obras Subterráneas S.A.
MTRC Contract 901	a joint arrangement between Kier Infrastructure and Overseas Limited, Laing O'Rourke Hong Kong Limited and Kaden Construction Limited

Joint ventures

	Interest held
Construction	
Incorporated and operating in the Kingdom of Saudi Arabia:	
Saudi Comedat Co.	25%
Property	
Solum Regeneration Limited Partnership	50%
Biogen Holdings Limited	50%
Kier Sydenham Limited Partnership	50%
Kier Hammersmith Limited	50%
Watford Health Campus Partnership LLP	50%
Long-term concession holding under the Private Finance Initiative	
Information Resources (Oldham) Holdings Limited	50%
Salford Village Limited	25%
Blue 3 (London) (Holdings) Limited	50%
Blue 3 (Staffs) (Holdings) Limited	80%
Evolution (Woking) Holdings Limited	50%

Notes:

i) Joint operations are contracted agreements to co-operate on a specific project which is an extension of the Group's existing business. Joint ventures are ongoing businesses carrying on their own trade.
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
(unaudited)

Year ended 30 June	**2014*** **£m**	2013*† £m	2012*† £m	2011*† £m	2010*† £m
Revenue: Group and share of joint ventures	**2,985.2**	1,982.8	2,069.2	2,178.8	2,098.7
Profit					
Group operating profit	**80.3**	44.8	55.0	56.3	61.5
Share of post-tax results of joint ventures	**1.6**	0.9	1.3	0.4	(1.3)
Profit on disposal of joint ventures	**6.1**	9.8	6.7	5.9	4.2
Underlying operating profit	**88.0**	55.5	63.0	62.6	64.4
Underlying net finance cost	**(14.9)**	(7.9)	(3.0)	(4.0)	(7.0)
Underlying profit before tax	**73.1**	47.6	60.0	58.6	57.4
Exceptional items	**(42.2)**	(17.0)	(3.6)	7.0	(2.0)
Amortisation of intangible assets relating to contract rights	**(10.8)**	(3.4)	(3.4)	(3.4)	(2.9)
Non-underlying net finance cost	**(5.3)**	(1.3)	(2.3)	(0.4)	–
Profit before tax	**14.8**	25.9	50.7	61.8	52.5
Adjusted basic earnings per share	**107.7p**	105.6p	136.9p	127.9p	121.3p
Dividend per share	**72.0p**	68.0p	66.0p	64.0p	58.0p
At 30 June					
Shareholders' funds (£m)	**309.7**	158.3	154.2	164.2	104.2
Net assets per share	**560.4p**	397.3p	397.2p	430.3p	278.0p

* 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. Years 2013, 2012 and 2011 comparatives have been re-presented to reflect this presentation.

† Restated to reflect the amendment to IAS 19 (see note 31).

Corporate information

Board of directors
P M White CBE FCA – Chairman
H J Mursell BA ACA
S Bowcott BSc
R C Bailey BA ACA
A K Bashforth MA
A J Mellor BSc FCIS
N P Winser CEng FIET FIGEM

Secretary
H E E Raven BA

Headquarters and registered office
Kier Group plc
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Registered number
England 2708030

Financial calendar
13 November 2014
Annual general meeting

28 November 2014
Payment of final dividend for year ended 30 June 2014

February 2015
Announcement of half-year results and interim dividend for year ending 30 June 2015

May 2015
Payment of interim dividend for year ending 30 June 2015

September 2015
Announcement of preliminary full-year results and final dividend for year ending 30 June 2015

Auditor
KPMG LLP
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E14 5GL

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10 Gresham Street
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HSBC Bank plc
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321 Avebury Boulevard
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The Royal Bank of Scotland PLC
280 Bishopsgate
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EC2M 4RB

Registrars
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Financial advisers
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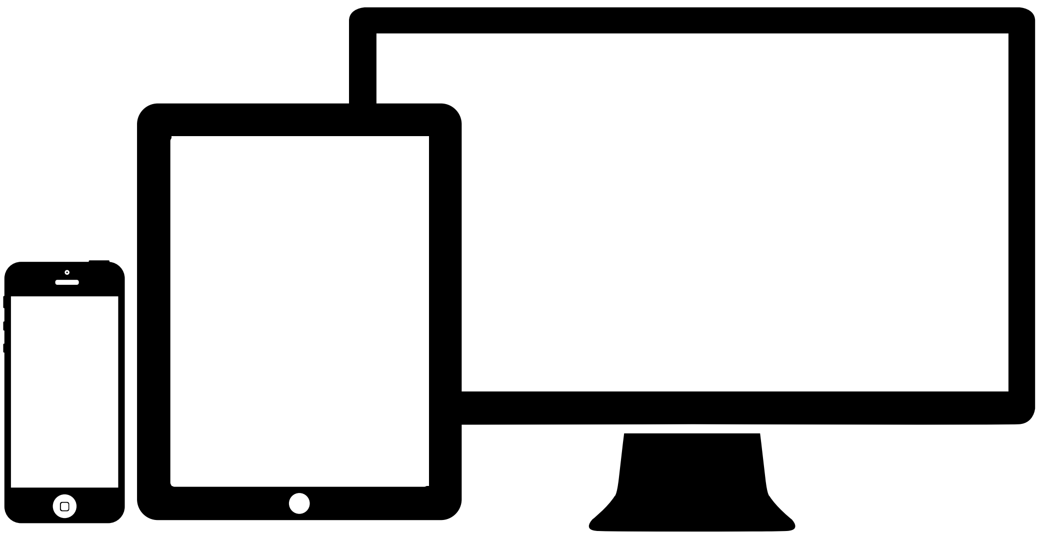
20 Moorgate
London
EC2R 6DA

Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

Go online to find out more

Our corporate website has key information covering our capabilities, markets, corporate responsibility and investor relations.

www.kier.co.uk



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