KIER GROUP PLC

PRELIMINARY RESULTS FOR THE

YEAR TO 30 JUNE 2012

13 September 2012

SOLID RESULTS IN LINE WITH EXPECTATIONS

- Underlying pre-tax profits* up 2% to £70.0m (2011: £68.9m)
- Underlying EPS* up 6% to 156.8p (2011: 148.4p), including a 6% reduction in the effective tax rate
- Full-year dividend up 3% to 66p (2011: 64p), reflecting the Board's confidence in the business
- Robust cash performance, with net cash at £129m (2011: £165m) after investment of approximately £50m during the year and average month-end net cash of £95m (2011: £129m)
- Construction margins of 2.5% (2011: 2.7%) and Services margins resilient at 4.5% (2011: 4.5%)
- 95% of the Construction division's targeted revenue and 91% of the Services division's targeted revenue for 2013 is secure and probable, with order books of £4.3bn (2011: £4.3bn)
- Significant contribution from Property, with a pipeline now in excess of £1bn

* Underlying pre-tax profits and EPS are stated before amortisation of intangible assets relating to contract rights of £3.4m (2011: £3.4m) and before exceptional items comprising costs associated with the disposal of the majority of our Plant business and the investment in Biogen (UK) Limited (total £3.6m).

Commenting on the results, Paul Sheffield, Chief Executive said:

"Kier is responding well in the current market and has achieved another solid set of results for the year. Our underlying pre-tax profit, earnings per share and full-year dividend are all ahead of last year, with strong order books for Construction and Services and cash at healthy levels after considerable investment during the year. This has been achieved in tough markets and over the last few years we have focused on strategies that are now helping to protect us from the worst of those external pressures.

"Trading conditions will remain demanding in our core markets for some time. However, the business has proven to be resilient and we will maintain a focus on the market sectors which we believe have the greatest growth potential, continuing to invest and redeploy our resources to progress our strategy.

"Our strong balance sheet, focused approach to cost control and track record of delivery across all our sectors gives us the confidence to invest in the long-term growth of the business and to continue to provide high quality, innovative solutions to our customers."

Chairman's statement

I am pleased to report a solid set of results for Kier Group plc for the year ended 30 June 2012. Underlying profit before tax, before the amortisation of intangible assets relating to contract rights and exceptional items, improved 2% to £70.0m (2011: £68.9m) and earnings per share on the same basis increased 6% to 156.8p (2011: 148.4p), enhanced by a 6% reduction in the effective tax rate.

Revenue at £2,069m, was 5% lower than last year (2011: £2,179m). However, the operating margins were resilient in both the Construction and Services divisions, at 2.5% (2011: 2.7%) and 4.5% (2011: 4.5%) respectively. There was also a more substantial contribution from the Property division, including the housing businesses, with a 44% increase in its operating profit to £22.0m (2011: £15.3m).

The Group's cash performance remained stable, despite a more challenging working capital environment, with average Group month-end net cash of £95m (2011: £129m), after investment during the year of approximately £50m. This produced a Group net cash position at 30 June 2012 of £129m (2011: £165m).

Taking into account the performance of the Group, its cash position, and continuing the Group's progressive dividend policy, the Board proposes to increase the total dividend for the year by 3% to 66p (2011: 64p), which is more than twice covered by adjusted earnings per share and reflects the Board's confidence in the business. The final dividend of 44.5p will be paid on 28 November 2012 to shareholders on the register at close of business on 21 September 2012. There will be a scrip dividend alternative.

Board changes

At the annual general meeting in November 2011, we announced the appointment of Amanda Mellor as a non-executive director of the Company with effect from 1 December 2011. Amanda is currently Group Secretary and Head of Corporate Governance of Marks & Spencer Group plc, having previously been Head of Investor Relations at Marks & Spencer and Director of Corporate Relations at Arcadia Group plc. Throughout the year, Amanda has made a significant contribution to the Board and to its Risk Management and Audit, Remuneration and Nomination Committees.

Outlook

With our order books in Construction and Services at a combined level of £4.3bn we have entered the new financial year in a good position with 95% of the Construction division's targeted revenue and 91% of the Services division's targeted revenue for 2013 secure and probable. The Property division with its pipeline now standing at over £1bn will continue to be a key contributor to the Group results and will create opportunities across all the divisions, thus maintaining our well-balanced business model.

We will continue to pursue growth areas across each of our three operating divisions and with our committed and professional staff and the diversity of our business model; we remain well positioned in today's changing environment.

Phil White
Chairman

Chief Executive's review

Overview

Kier has had a good year despite the challenging economic environment and has delivered a solid set of results for the year to 30 June 2012, with underlying profit before tax and earnings per share ahead of last year. This performance has been supported by a robust cash performance, with a year-end net cash balance of £129m (2011: £165m) after significant investment across the Group.

The year to 30 June 2012 has been busy for all our businesses in bidding for work in an increasingly competitive environment. We have responded well to the challenges this difficult market has presented and our success is due to the hard work of all our people, of whom I am very proud.

In response to the trading conditions, encountered during the year, we have further improved our operational efficiencies and reallocated resources around the Group to address the projects we have secured, looking to be as cost-effective as possible. We have maintained our focus on providing intelligent solutions to our customers which means our well-balanced business model continues to allow Kier to access a wide range of opportunities across all our divisions. We are encouraged by the Government's commitment to improve the UK's infrastructure and are well-placed to benefit from this investment.

Financial performance

	Total revenue £m	**Operating profit * £m**
Construction	1,383	35.2
Services	445	20.1
Property	241	22.0
Corporate	-	(2.9)
	2,069	**74.4**

* Before exceptional items and amortisation of intangible assets relating to contract rights

Revenue for the year at £2,069m was slightly lower than last year (2011: £2,179m), and the strength of the margin is testament to the quality of the work we completed during the year. The Group's operating profit, before the amortisation of intangible assets relating to contract rights, was 5% ahead of last year at £74.4m (2011: £71.1m) and comprised operating margins of 2.5% in Construction, 4.5% in Services and a valuable contribution from Property as we continue with our investment strategy.

Exceptional items before tax amounted to a charge of £3.6m for the year (2011: net credit of £7.0m), as follows:

- a charge of £3.2m for external costs and the loss against net book values, relating to the disposal of the majority of our Plant business (temporary accommodation, mechanical and small tools) in July and August 2012; and
- a charge of £0.4m for external costs related to the investment in Biogen (UK) Limited, which also completed in August 2012.

Profit before tax for the year, before the amortisation of intangible assets relating to contract rights and exceptional items, was 2% ahead of last year's at £70.0m (2011: £68.9m). On the same basis, adjusted earnings per share were 6% ahead at 156.8p (2011: 148.4p).

The management of working capital remains very important to the Group in an increasingly challenging payment environment. It is therefore pleasing that in parallel with this trading result, the Group achieved a healthy average month-end net cash balance of £95m (2011: £129m) after investment of approximately £50m during the year across the Group.

Group strategy
Whilst our strategy continues to focus on growth areas in each of our divisions, leveraging the many opportunities that arise through our well-balanced, integrated model, we regularly review our activities and markets to adjust and refocus where necessary to remain agile in quickly changing trading environments. This clearly requires us to have a robust and diverse set of capabilities to ensure we are able to place quality resources in these new areas - including human resources, financial, technical, IT and management systems.

There have been four underlying strategies that we have adopted over the last few years each of which has contributed to our operating performance this year. These are:

- staying focused on quality solutions and value creation;
- pushing our boundaries, by focusing on growing markets;
- optimising our capabilities through leveraging our integrated, well-balanced business model; and
- maximising our assets, by investing in our people.

<u>Staying focused</u>

The ongoing uncertainties in the Eurozone are inevitably having a significant impact on our operating markets. However, we have maintained a focus, across the Group, on pursuing good quality opportunities where experienced customers seek intelligent solutions rather than the lowest price. Although we are unable to avoid the increasingly competitive markets entirely, this approach has partly insulated us and I am pleased that we have been able to maintain our secured pipeline of work at the same level as last year across our Construction and Services divisions and that the order book in our mixed tenure housing business has grown significantly. This focus on quality has required us to improve our operational efficiencies and reallocate resources around the Group where there is most opportunity; as a result of which we have seen an increasing shift towards London and the south-east, our infrastructure business and international markets.

<u>Pushing boundaries</u>

Each of our business units has been looking to extend its service offering to adjacent markets, leveraging the existing skills we have, to work in new sectors or geographies. In our Services division, despite seeing a decline in revenues in our existing public sector long-term housing maintenance contracts, where we have a very strong presence, we have been successful in securing a place on the largest private sector housing maintenance contract let this year with Circle. We have also been able to expand our operational activity in the private sector facilities management (FM) market with some significant contract wins such as the RAC and L&G, and we have secured new long-term contracts for our Environmental business.

Our Construction division has seen a significant change in the balance of its work with a greater proportion of more specialist major civil engineering and infrastructure opportunities while still maintaining its strong presence in the more traditional general building markets. We are increasing our activities outside the UK, building upon our reputation and experience in the Caribbean, Hong Kong and the Middle East. All these growing markets have challenging entry levels and Kier is one of only a few companies with the resources - human, technical and financial - to gain access to these opportunities.

Meanwhile, our Property division has been innovative in its approach to its investment activities, developing a series of bespoke partnerships to maximise the assets of clients across a range of sectors, from railway stations to corporate headquarters and from fire stations to major regeneration schemes. Finally, the refocusing of our house building activities towards the affordable homes sector, and expanded relationships with housing associations, has proved successful and we now have a secured pipeline of work, totalling £250m, of mixed tenure projects comprising some 1,900 new homes.

Examples of how this strategy is delivered are described in further detail in the business review of each division. To cite just one example, our focus on increasing our activity in Scotland during the year has led to us being awarded a position on the new infrastructure hub framework in the south-west, worth up to £500m over the next ten years. This comes in addition to the acquisition of certain of the construction operations of Aberdeen-based Stewart Milne, which extends our presence beyond the central belt.

In July and August 2012, following a strategic review of our Plant business, we sold some of our non-specialist plant assets for a combined maximum aggregate consideration of £15.7m. We have retained our technical operated plant activities, including our specialist crane operations, which will remain within the Group for operational reasons. The sale will enable us to invest that capital in a value creating part of the Group in the coming year.

Also in August 2012, we completed the £24.4m investment, over five years, in Biogen (UK) Limited, establishing a 50/50 joint venture with the owner of the Bedfordia Group plc. Biogen designs, builds and operates large-scale anaerobic digestion (AD) plants to process food waste and produce renewable energy. It currently owns and operates two large commercial AD plants in the UK (both of which are included in the joint venture) and we plan to build a number of further plants in strategic locations to serve the requirements of local authorities, food retailers, food manufacturers and commercial waste providers to the food and retail industries. The joint venture will enhance our Environmental business by providing intelligent solutions for the treatment of food waste and complements our Pure Recycling business which we acquired in 2010. There is significant demand for new AD plants across the UK, with seven million tonnes of food waste being produced per annum and current AD capacity of only 2.5 million tonnes, resulting in a need for a further 100 plants. Following an initial two-year investment phase, we expect the return on capital to exceed 15% and for the business to be operating nine plants by 2017.

<u>Optimising capabilities</u>

We have a very well-balanced and diverse business model, which differentiates us from our competitors by offering a fully comprehensive service to our customers. This enables us to provide either one-off solutions or a wider value-added platform combining two or more of our services, right through to the total one-stop approach that enables us to plan, design, finance, build, manage and maintain customers' assets over the long term. These capabilities have enabled us to become the preferred development partner for Siemens, developing their major mixed-use scheme in Manchester, secured in April, and more recently we have been chosen as the preferred development partner for the Health Campus Partnership (formed by Watford Borough Council, West Hertfordshire Health Trust and Watford Football Club) for the £240m Watford Health Campus project. We are also working as a partner with Network Rail in the growing Solum Regeneration station redevelopment business in which we are able to plan, design, finance, build and sell-on some of their railway station assets.

<u>Maximising assets</u>

Our success has been built upon the skills, efforts and loyalty of our people, from our street services operatives across the country to the most highly qualified engineers working on infrastructure projects beneath the streets of London and Hong Kong. We are committed to a comprehensive development programme for a wide range of our staff to ensure that they continue to develop as managers and leaders within our business as it responds to the constantly changing economic environment. I am delighted that our ground-breaking "Team Leader Apprenticeship" was nominated the Apprentice Programme of the Year by the UK Contractors' Group and we continue to focus on our unique Foundation degree programme with Sheffield Hallam University to help us develop new graduates with the skills we need in today's market. We have also launched our Leadership Charter with senior management attending a bespoke course at RMA Sandhurst to commit to the values we place on true leadership. All of this ensures that our people, at all levels, are encouraged to maximise their potential and contribute to our future success as a business.

Health and safety

Our focus continues to be seeking to eliminate workplace injuries, to protect our environment and to increase our people's awareness of occupational health and well-being. Whilst we have delivered a reduction in our Accident Incidence Rate (AIR) during the year, we continue to strive towards our goal of Zero Harm. Our Positive Safety Leadership (PSL) programme is strong and continues to have an impact throughout the Group. There is clear evidence that as PSL interventions increase, our accident rates decrease.

Our Occupational Health Programme seeks to address a range of health issues. During the year over 600 Kier and subcontract personnel took part in a number of health related discussions on our sites and over 2,000 employees received display screen equipment training and assessments.

Looking to the future, we have robust strategic plans in place to deliver best-in-class safety, health and environment (SHE) performance and support to our employees and clients.

Our current AIR stands at 301 per 100,000 (2011: 389) which is significantly lower than the current Health and Safety Executive (HSE) benchmark rate of 536. Whilst it is recognised that we rank well within the top quartile of SHE performers and continue to improve our performance year on year, we have also challenged ourselves to do even better. The visible leadership of our people, management teams, supply chain, clients and partners is critical if we are to retain our position as industry leaders in SHE performance.

Another independent assessment of the quality of our approach to running our projects, which includes a significant safety element, is the Considerate Constructors Scheme (CCS). Under this scheme, we received 36 National Site Awards during the year, reflecting a consistently high performance across the country.

People

Every day 10,000 people come to work for Kier in the UK and overseas, working towards creating and maintaining a sustainable built environment in its many forms and delivering essential and efficient local services. It is through their effort and commitment that we remain a strong business and can report such a solid set of results despite the current economic environment.

Recent business and economic challenges have meant that we have needed to ask more of our people, and I am incredibly proud of the results that they have achieved this year. We continue to deliver safely, to programme, to budget and to great quality, and I would like to express my thanks, and those of the Kier Group Board, to all of our employees for their continued professionalism, effort and commitment.

Prospects

The current trading environment will continue to be challenging. On-going public sector spending cuts are affecting levels of construction and services activity, and private sector confidence, although stronger in the south-east, remains fragile.

Our well-balanced business model, which offers a range of services, including investment, planning and design, construction, maintenance, soft and hard facilities management, waste, energy and environmental services and regeneration, provides stability. It also allows us to respond rapidly to changing markets and position ourselves favourably when new opportunities arise.

We will continue to seek out areas of growth across the UK and our chosen overseas markets and by utilising our strong balance sheet, we are confident that our robust performance will continue and that we will further benefit when the economy begins to improve.

Paul Sheffield

Chief Executive

Business review, markets and outlook

Kier Construction

The Construction division encompasses our UK regional contracting, civil engineering and overseas businesses, which are highly skilled in the construction of the full range of building projects, together with power, waste, nuclear and infrastructure facilities, rail and mining projects.

Construction business review

Revenue in Construction was 4% lower than last year, at £1,383m (2011: £1,445m), reflecting the challenging UK building market, mitigated in part by an increase in the Group's overseas and UK infrastructure volumes.

We maintained our focus on securing higher quality work, and although our operating profit decreased to £35.2m (2011: £39.3m), the 2.5% operating margin (2011: 2.7%) represented a good performance. The operating margin was supported by a solid cash performance delivering a year-end cash balance of £361m (2011: £423m), after cash outflows for investment and major project completions of approximately £45m during the year. We do not however expect the current challenging UK market to improve in the short term and this will inevitably put further pressure on UK construction margins and cash performance over the next 12 to 18 months.

We continue to have good visibility of high quality opportunities with 63% of our contract awards during the year arising from our numerous frameworks and similar arrangements. These awards, as part of the total £1.4bn awarded, have maintained the secured and probable order book at £2.2bn (2011: £2.2bn). We are active on numerous frameworks across the UK through which clients continue to procure a significant element of their work with a focus on quality, whole lifecycle costs and the financial strength of their chosen partner.

Approximately 50% of our awards were for public sector projects (2011: 56%), and we predict that the balance of public sector to private sector work will stabilise at these levels.

Of the public sector awards, we continue to be successful in the education sector, which accounted for 31% of awards (2011: 33%). Despite the decline in education spending, opportunities under the replacement Contractors' Framework for Academies have resulted in ten schemes being financially closed or achieving preferred bidder status during the year with a combined value of circa £200m. We look forward to participating in the Free School opportunities, the University Technical College programme and the forthcoming Priority Schools Programme, although continued delays to these have affected the whole industry.

The six-year Procure 21+ framework, which commenced in October 2010, continues to generate opportunities and our healthcare sector represented 10% of our awards (2011: 6%), with a value approaching £150m in the year. In October 2011, we were awarded a place as a delivery partner for the three Designed for Life – Building for Wales2 (DfL2) regional frameworks for healthcare projects of up to £10m each and we are also shortlisted for the DfL2 national framework for projects over £10m.

In June 2012, we completed our flagship £200m Category 'B' prison facility for the Ministry of Justice at HMP Oakwood at Featherstone, Wolverhampton. The scheme has validated the new and innovative model developed by our client demonstrating that a high value, complex and large-scale facility can be successfully procured and delivered through a design and build route. The project was completed ahead of schedule, under budget and to an excellent quality standard. Also in the custodial sector, we secured a place on the Ministry of Justice Northern Regional Framework and its National Framework for projects over £10m, both starting in April 2013 for six years and each valued at between £50m and £100m.

In the private sector, the commercial, power and waste sectors are providing us with the most significant opportunities. During the year, we secured circa £200m of commercial building projects, representing approximately 14% of our contract awards during the year. We commenced work on the £42m Arthouse at King's Cross for Argent, secured the Camden Civic Centre project on the King's Cross development, and the Sainsbury Wellcome Centre contract at University College of London, Howland Street, in London, with a combined value of approximately £130m.

Our strategic relationship with Argent Group at the King's Cross Central Development continues to be a success providing approximately £100m of work in the year, with further sizeable opportunities anticipated over the next 12 months.

Our Kier Living business, which is highly successful in bidding and delivering high rise contract housing, care homes and similar residential establishments, has also performed well, having secured over £150m of projects during the year.

Our Infrastructure business continues to progress in the transport, power and waste markets in the UK and overseas. On Crossrail, at the C300/410 Western Tunnels project (valued at circa £500m) the first Tunnel Boring Machine (TBM), commenced operation in May 2012 and is now heading towards its destination at Farringdon. The second TBM, commenced boring in August 2012. The overall completion for this project is due in mid-2015. Our second major contract at Farringdon Station (circa £210m) for civils, tunnelling and fit-out works has now commenced with design works under way and substantial completion is scheduled for mid-2016.

The energy sector remains a key focus and we expect significant activity in this area as the UK's ageing power stations are replaced or upgraded over the next ten years, although the ongoing delays to the Electricity Market Reforms by the Government continue to defer this significant programme of work. In December 2011, in the power sector, we were awarded the £100m+ contract, in joint venture, by EDF Energy to carry out site preparation works at the Hinkley Point C nuclear power station project in Somerset. The £50m contract to build an energy-from-waste plant in Plymouth for MVV and South Devon Waste Partnership, awarded in 2011, is now under way having received all the necessary approvals. We are also preferred bidder for a new £45m waste treatment facility at Wakefield where we expect financial close in the second half of 2012.

We continue to undertake infrastructure and civil engineering projects for AWE at Aldermaston and Burghfield and are also developing the design and target costs for a major plant at Urenco, Capenhurst, with potential work valued in excess of £50m.

Overseas, in our key geographies, we are seeing increased activity, enabling our international business to continue to grow. In Hong Kong, our two projects for the Mass Transit Railway (MTR) Corporation, totalling more than £300m in joint venture, are progressing well and we have been short-listed for a third major scheme on the forthcoming Shatin to Central Link for the same customer. We have a good pipeline of opportunities and continue to target, on a selective basis, a number of other MTR and government infrastructure projects. In the Middle East, we have secured further core work for the Dubai Municipality, another long-term customer, and are seeing an increase in tender activity in the region, particularly in our focus markets of Saudi Arabia, Abu Dhabi and Iraq. In the Caribbean, our business has enjoyed another good year and has delivered excellent results. In addition to a number of significant wins in Jamaica, including a £17m hydroelectric scheme, we have also secured our second project in Haiti for one of our key customers, Digicel. We are confident that our success in the region will continue as the business secures further work in Jamaica and extends its activities into Trinidad & Tobago.

Construction markets and outlook

Notwithstanding our strong market position, and healthy order books, we face continued difficult trading conditions in the UK. There is a significant shift in spending patterns from public sector social infrastructure projects to private sector and areas of regulated spend, and we remain focused on the careful selection of quality work through frameworks and similar arrangements, while targeting the power, waste and transport markets and commercial building projects from our long-term customers.

Our approach to pursue overseas work and UK infrastructure opportunities has delivered a total current tender pipeline in UK infrastructure of approximately £1.8bn spread across the power, regulated, water and waste sectors. We also see growing opportunity across our overseas operations. In Hong Kong, building upon our on-going projects for the MTR, we are targeting the significant forecast investment spend of more than £15bn per annum in infrastructure, including rail, education and regeneration projects. In the UAE and particularly Saudi Arabia we are focused on power, education, health and infrastructure work which is expected to create £400bn of projects by 2020. In the Caribbean, where this year we celebrated 50 years of experience in Jamaica, we have opened an office in Trinidad to continue our growth in the region, targeting more than £100m of identified opportunities.

With our broad and flexible capability, we are able to adapt to changing markets and access a healthy pipeline of quality opportunities. During the year, we have developed several new products and services to further enhance our ability to secure work in our identified growth areas. Examples are Kier Living, referred to above, Kier Defence, which is looking to gain access to the national and regional frameworks that are currently being developed by the Ministry of Defence, and i&r, a new Kier brand for interiors contracting.

The diversity of our skill set enables us to target the expansion of UK infrastructure and overseas work as the UK building market continues to decline and become more competitive. Our focus on quality opportunities will help us maintain a stable, profitable and cash generative business in the coming years.

Kier Services

The Services division comprises three main businesses: Maintenance, which provides both reactive and planned maintenance largely to local authorities and housing associations; FM, providing services to public and private sector clients; and Environmental, offering services for domestic and commercial waste collection and the management and operation of a major recycling facility, street scene and grounds maintenance.

Services business review

Revenue was 8% lower than last year, at £445m (2011: £484m), principally because of the reduction in public sector budgets which affected the planned works in our Maintenance business. This was mitigated in part by modest revenue improvements in the FM and Environmental businesses.

The overall operating margin has been maintained at 4.5% (2011: 4.5%), before deducting the amortisation of intangible assets relating to contract rights of £3.4m (2011: £3.4m). This highlights our ongoing focus to secure and deliver high quality work, which produced an operating profit of £20.1m (2011: £21.7m). Cash balances remained resilient at £19m (2011: £28m) after incurring approximately £5m of redundancy and restructuring costs to realign the cost base in light of the lower volumes of work in Maintenance and following investment of approximately £10m primarily in our Environmental business.

There remains a good forward visibility of work, following an improvement in the Services order book to £2.1bn (2011: £2.0bn). Total awards for the year were approximately £650m, offset by a £180m negative adjustment to reflect lower future volumes on one of our long-term Maintenance contracts in response to a client's reduced budget. The £2.1bn does not include potential contract extensions, which could add approximately £800m if all were exercised by our customers.

In our Maintenance business revenues decreased by 20% to £280m (2011: £351m), as a result of the budget constraints faced by local authorities, predominantly in the discretionary area of planned and small capital works. During the year, Maintenance secured contracts with South Essex Homes to repair and maintain 12,000 homes and has secured an early extension to our joint venture arrangement with Harlow District Council valued at £82m to 31 January 2017. We currently maintain approximately a quarter of a million homes throughout the UK, representing approximately 5% of social homes in the UK and making us one of the largest providers of housing maintenance services.

Over the past few years, we have been broadening our focus, from our traditional area of strength with local authorities, to housing associations. There is a solid pipeline of opportunities in this area, and we secured the largest housing maintenance contract to come to the market this year with Circle. The contract has an anticipated value of £350m over ten years (five years contracted and a potential five year extension) and reflects how certain clients are reducing their number of suppliers to meet tighter budget targets.

Our Environmental business continues to grow, with revenues in excess of £40m, and now looks after 1.1m UK residents, emptying 33m household bins every year. During the year, the business secured approximately £100m of new work, including an early extension to our contract with Corby District Council, valued at £20m, and is preparing to mobilise on our new contract with the Borough of King's Lynn and West Norfolk, valued at £28m.

Our Pure Recycling materials recovery facility in Ettington, Warwickshire, continues to operate well and has processed nearly 100,000 tonnes of material during the year. As previously mentioned, in August 2012 we announced our investment in Biogen (UK) Limited, which designs, builds and operates large-scale AD plants to process food waste and produce renewable energy. These services will enhance Kier's Environmental business, particularly after the initial two-year investment phase, and will provide intelligent solutions for the treatment of many different types of waste.

Our FM business has seen modest growth over the year with revenues of approximately £120m and has improved its penetration into the private sector FM market. Our FM team currently looks after approximately 6,000 commercial properties across the UK.

New contracts secured during the year totalled in excess of £150m, and include contracts to provide total FM nationally for blue-chip customers such as the RAC and Siemens Enterprise Communications alongside more local contracts such as that for Westminster College. All of which increase our share of the private sector market.

In the public sector, we have been successful through several private finance deals in which Kier has been selected to provide an integrated PFI solution for blue light services. Contracts for London Fire Brigade and Staffordshire Fire and Rescue, with a combined FM value of £34m, provide 25-year visibility for the FM business. In addition, contract wins with Hampshire and Surrey County Councils and London Borough of Bexley with a combined value of £59m demonstrate strength and customer confidence in our traditional public sector market place.

Services markets and outlook
While the current economic conditions continue to constrain our clients' budgets, we ultimately expect to see an increased level of outsourcing opportunities as both the public and registered provider sectors, in particular, continue to seek to alleviate cost pressures and examine their current service delivery requirements.

We currently anticipate that this increase in activity will translate into revenue growth, particularly for our Maintenance business in the year to 30 June 2014, although predicting the timing of contract awards is challenging. We do not anticipate any of our significant contracts being re-tendered before 2014, which provides stability over the intervening period. The cost pressures on local authorities are also leading to an increased level of opportunities for our Environmental business where we anticipate further revenue growth although across all sectors the focus on cost reduction will inevitably lead to some pressure on operating margins.

In the private sector, customers continue to examine their cost base, which will provide us with opportunities, as non-core activities are outsourced. Our diverse offering, covering both hard and soft FM, has performed well during the year and continues to seek to grow in scale, which remains a focus for us.

The Services division's performance remains robust, with an improved £2.1bn order book giving good forward visibility of workload, coupled with potential extensions of £800m and a steady pipeline of further opportunities. We remain optimistic about the medium-term prospects in our core markets and will continue to progress those areas where we see the most potential for growth.

Kier Property
Our Property division comprises three main businesses: commercial, industrial, retail and mixed-use property development; structured property financing; and homes, including both private and affordable housing.

Property Business Review
Revenue for the year to 30 June 2012 of £241m (2011: £250m) was 4% lower than last year. However operating profit was significantly ahead at £22.0m (2011: £15.3m) as we continue to develop our £750m development pipeline, selectively dispose of our mature PFI investments and progress our housing activities.

Within the property development business, there have been a number of successes during the year. The disposal of 3 Savile Row was completed in the second half of the year at a value in excess of £33m and in our industrial portfolio, unit sales continued at Uxbridge and the final unit at Romford was sold. Construction has commenced at Sydenham, a former National Grid operational site, on over 100,000 sq ft of pre-let retail space, where completion is expected in the summer of 2013.

At Western International Park in Hounslow, a two-acre plot adjacent to our main proposed development scheme was disposed of after enhancing the development value through the planning process, and ten acres of residential land at the former Ordnance Survey headquarters site in Southampton was also sold. During the year new sites were acquired in Sunbury, where we are constructing 34,000sq ft of industrial units of which over 30% are already pre-let, and in Bracknell where we are undertaking demolition works prior to building 39,000sq ft of pre-sold industrial units.

We were pleased during the year to be chosen by Siemens as its preferred development partner for a major mixed-use scheme in Manchester. The scheme, which has a development value of between £120m and £150m over the next five years, will be anchored by a new c. 100,000 sq ft headquarters office for Siemens together with an associated Renewable Energy Efficiency Centre. Work will include refurbishment of the current Sir William Siemens House.

More recently, in August 2012, we were appointed preferred partner to the Health Campus Partners hip (formed by Watford Borough Council, West Hertfordshire Health Trust and Watford Football Club) on the £240m Watford Health Campus project. This will be a mixed-use development, including new hospital facilities for Watford and south-west Hertfordshire; up to 650 homes, 35% of which will be affordable; a pre-let office; and a large multi-storey car park. The Health Campus Partnership has been established to regenerate land in Watford and the surrounding area, creating new office, retail and industrial space and the potential for 1,600 new local jobs.

Solum Regeneration, our joint venture with Network Rail, now has three schemes on site. At Epsom 95% of the scheme by value has been pre-let and is due for completion later this year. At Walthamstow, the 107-bed hotel and 35 affordable apartments together with 1,300sq ft of retail accommodation have all either been pre-let or pre-sold. In Christchurch, we are building seven affordable apartments for a local Housing Association and 17 houses for private sale. The portfolio continues to expand with 11 schemes under contract at 30 June 2012 and several further opportunities expected to be added in the next few months.

We continue to be encouraged by the strong pipeline of opportunities and anticipate the level of capital investment to increase towards £100m by June 2013, on which we are targeting a 15% return on capital.

During the year, in our structured property financing business, we disposed of two equity investments in West Berkshire and Hinchingbrooke Hospitals at a valuation discount rate of approximately 7%, the latter being acquired by the Kier Group Pension Scheme at its market value of £3m. We have also recently been awarded preferred bidder status on both the London Fire Service and Staffordshire Fire Service schemes, which between them will provide 20 new fire stations at a combined value of more than £100m. Our portfolio of PFI projects now totals ten schemes, eight operational and two at preferred bidder stage and our committed equity investment stands at £23m (2011: £21m) including £5m for preferred bidder projects, of which £18m has been invested to date. The directors' valuation at a discount rate of 7.5% is £34m.

Our affordable housing and mixed-tenure business has performed well this year, delivering nearly 300 homes, of which more than 80% were affordable. Our position as a Homes and Communities Agency (HCA) Investment Partner and a member of the HCA's Developer Partner Panel coupled with our Affordable Housing Programme grant allocation has enabled the business to secure in excess of £285m of new orders. All of these are a combination of affordable housing integrated with private housing for sale on HCA and public sector land with land payments being made on a deferred basis.

These successes have generated a forward pipeline of work in excess of £250m, which equates to 1,900 affordable and private sale plots and provides a strong platform for the next five years.

Our first mixed tenure regeneration scheme with Birmingham Municipal Housing Trust is firmly established and selling strongly and we have also secured the next phase of the development comprising 420 new homes with a development value of circa £52m. We have successfully secured the

Manor and Kingsway Regeneration scheme comprising 700 new homes and 21,000 sq m of office accommodation in Derby together with the regeneration of Ransome Road in Northampton, which involves the construction of 420 new homes.

Our private housing business exceeded expectations, completing 647 units (2011: 562 units), with 555 private developments and 92 social homes, and has a good pipeline for the following financial year. Sales rates are approximately 0.6 units per trading site per week across our target geographical area. Our cash investment in the private housing business has decreased to £240m (2011: £264m), with committed land sale receipts of £16m due over the next 18 months. Our land bank at 30 June 2012 is carried at a value of £132m (2011: £159m) and is represented by 4,180 plots (2011: 4,849 plots) all with planning consent.

Our strategy to reduce the cash investment in our land bank so that it supports a 500- to 600-unit business continues, with the aim of having a land bank equivalent to approximately four to five years' supply. It remains our intent to sell selectively further land over time; however, we do not anticipate realising profit from these transactions, the focus being instead on cash generation. Private housing on owned land is being built primarily on land acquired prior to the market correction in 2008 and we therefore anticipate modest margins through this business over the next few years. Cash released will be made available, where appropriate, to invest in other parts of the Group.

Property markets and outlook
The Property division is increasingly bringing together skills and expertise from across the Group to deliver greater value from our schemes and to our customers. The current macroeconomic environment reduces confidence and therefore investor activity, which combined with on-going liquidity constraints makes for a more difficult outlook. However, this will present our Property division with opportunities to utilise the strong Group balance sheet to unlock viable schemes that have been unable to progress due to a lack of funding.

In property development, we will maintain our focus on opportunities in well-located and marketable areas with significant potential for occupier-led, pre-let or forward sale solutions, while targeting a 15% return on capital. Similarly, we continue to pursue innovative funding routes to support the growth in the development pipeline and make the best use of our cash reserves.

In our housing business, we will continue with our strategy to maintain a private 500- to 600-unit housing business, while releasing cash from the land bank over time, and will pursue growth in our affordable and mixed tenure housing business through our well-established relationships with local authorities and housing associations.

Overall, the Property division has established a solid platform with a £750m development pipeline, a £250m affordable housing pipeline and a stable private housing business, and can be expected to deliver a sustainable level of profits over the next few years.

Financial review

In conjunction with the chairman's statement and the chief executive's 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 to 30 June 2012.

Financial performance

	2012	**2011**	**% change**
	£m	**£m**	
Revenue: Group and share of joint ventures	2,069	2,179	-5%
Operating profit: Group and share of joint ventures*	74.4	71.1	+5%
Profit before tax*	70.0	68.9	+2%
	p	**p**	
Earnings per share*	156.8	148.4	+6%
Dividend per share	66.0	64.0	+3%
	£m	**£m**	
Average month-end net cash balance	95	129	-26%

* Before exceptional items and amortisation of intangible assets relating to contract rights

Revenue has slightly decreased by 5% (£110m), as a result of the current market conditions across many of our UK businesses. In Construction, our pipeline is strong; however our key focus remains attracting quality work and we will not seek growth of our revenue at the expense of that quality, preferring to utilise our technical skills to provide the best solution to clients. In Services, revenue declined as a result of a lower level of activity in our Maintenance business, which has been expected as a result of the on-going budget pressures faced by our local authority customers, particularly in the area of planned and capital works. This was partially mitigated by an improvement in the FM and Environmental businesses in which revenue improved through successful contract renewals and extensions.

Operating profit including joint ventures, before the amortisation of intangible assets relating to contract rights, was 5% ahead of last year at £74.4m. The operating margin in Construction of 2.5%, benefitted from the completion of contracts secured when pricing was less competitive and as a result of our prudent profit recognition policy. In Services, we have maintained an operating margin of 4.5%, which is a good result in light of the lower level of planned and capital works which has affected our Maintenance activities. The sizeable growth in operating profit in Property results from the ongoing progress of our £750m property development pipeline, the good level of housing sales achieved and the disposal of two of our PFI investments, which generated a £6.7m operating profit. Detailed information on the operating performance of each of the divisions is provided within the business review.

Corporate costs at £2.9m have reduced considerably compared to 2011, primarily due to a reduced pension charge relating to our defined benefit pension schemes, and are analysed in the following table.

	2012	**2011**	*Change*
	£m	**£m**	
Unrecovered overhead	**(0.6)**	(0.4)	*(0.2)*
Pension charge	**(2.3)**	(4.8)	*2.5*
	(2.9)	(5.2)	***2.3***

This reduction is a direct result of changes in the underlying pension assumptions, in particular the discount rate and the expected return on assets. This is covered in more detail in the pensions section of this review.

The Group's net finance cost, analysed below, includes interest receivable arising from average month-end net cash balances of £95m for the year (2011: £129m) after considerable investment during the year, and reflects a reduction in the sub debt interest receivable following the ongoing PFI investment disposals.

The increase in interest payable includes the fees following the extension of our revolving credit facilities, which now total £120m and are available until September 2016. The unwinding of the discount on long-term liabilities and the share of joint venture interest, when combined, have not significantly increased.

The change in presentation is a result of the Lloyds property portfolio acquisition in April 2011, which we now consolidate, whereas prior to April 2011 its results were equity accounted.

	2012 £m	2011 £m
Group interest receivable	2.6	3.7
Interest payable and fees	(3.7)	(2.7)
Unwinding of discount on long-term liabilities	(3.3)	(1.5)
Share of joint venture interest	0.2	(1.4)
	(4.2)	**(1.9)**

Profit before tax, amortisation of intangible assets relating to contract rights and exceptional items increased by 2% to £70.0m (2011: £68.9m). This includes a joint venture tax charge of £0.2m (2011: £0.3m) and is stated before minority interests of £1.1m (2011: £0.5m). The minority interest relates to the share of profits of our 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 reduced from 19% last year to 13% mainly as a result the successful completion of negotiations with HMRC, which began in 2010, and the reduction in the standard corporation tax rate to 24%.

Earnings per share before amortisation of intangible assets and exceptional items was 6% ahead of last year at 156.8p (2011: 148.4p), benefiting from the reduction in the effective tax rate.

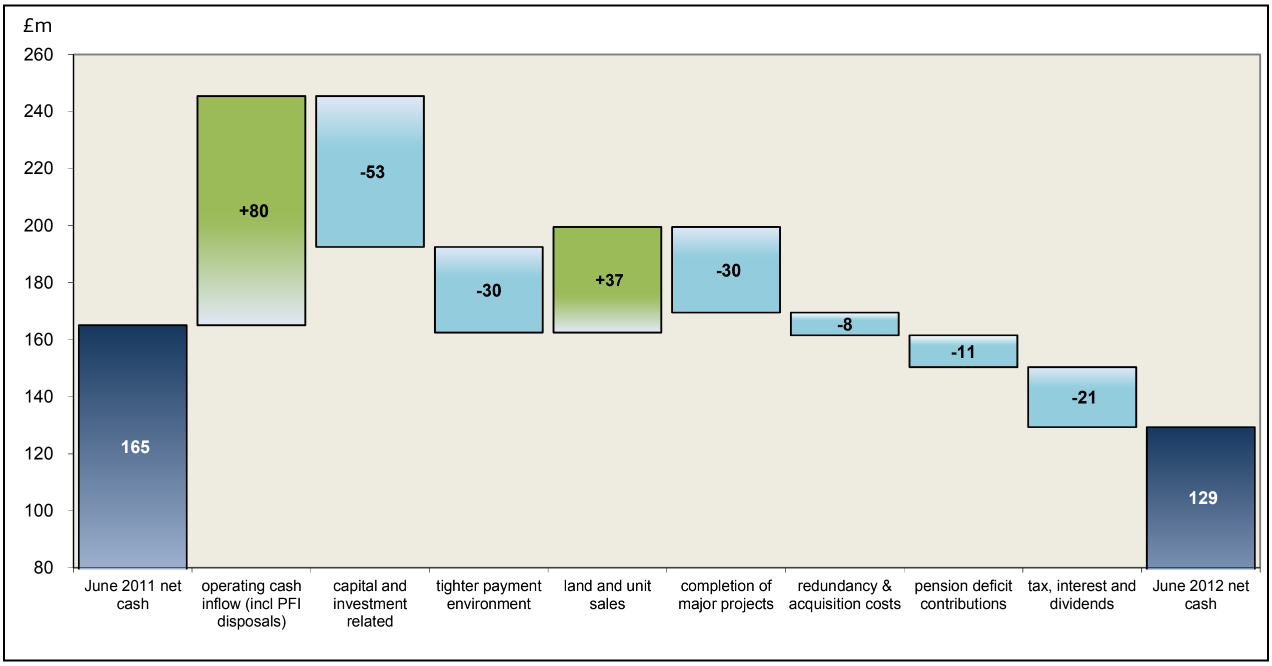
Exceptional items
Exceptional items amounted to a charge before tax of £3.6m (2011: net credit of £7.0m), as follows:

	£m
Disposal of the majority of our Plant business	(3.2)
Acquisition of 50% of Biogen (UK) Limited	(0.4)
Total exceptional items	**(3.6)**

These transactions completed in July and August 2012. However the costs associated with them were recognised in the year to 30 June 2012. The disposal of the majority of our Plant business comprised losses on fixed asset values together with redundancy and external transaction costs. The £0.4m, in relation to the acquisition of 50% of Biogen (UK) Limited, comprised external transaction costs.

Cash performance
The Group's cash performance has remained robust, with average month-end net cash balances of £95m (2011: £129m) after considerable investment across the Group, reflecting the sharp focus on cash management across the whole Group. This performance produced a net cash position at 30 June 2012, after deducting £30m relating to loan notes, of £129m (2011: £165m).

The graph below shows the key movements in the Group's net cash position during the year.



Overall, the Group has invested approximately £50m during the year in its own growth, including mining land and equipment; refuse vehicles, further expenditure in its Pure Recycling business, and ongoing investment in the Property division, including mixed tenure housing.

Within the Group cash balance at 30 June 2012, Construction at £361m and Services at £19m represented good performances. In addition to underlying trading, they include capital expenditure and investment of approximately £25m, redundancy costs of £7m, the effect of a general tightening of the payment environment and, in Construction, a change in the mix of projects currently being completed, to target cost where the cash profile is different to a typical lump sum contract. Construction has also seen a one-off cash unwind of approximately £30m following major project completions.

In Property, the net debt position improved due to the successful completion of a number of development schemes in the second half of the year following investment in the first half. For example Savile Row completed in March 2012 valued at approximately £33m. The net debt position across the housing businesses has reduced to £242m, down from £259m, following unit and land sale receipts, partially offset by an increase in work in progress on mixed tenure sites, which is a growing business with a forward pipeline of work now in excess of £250m.

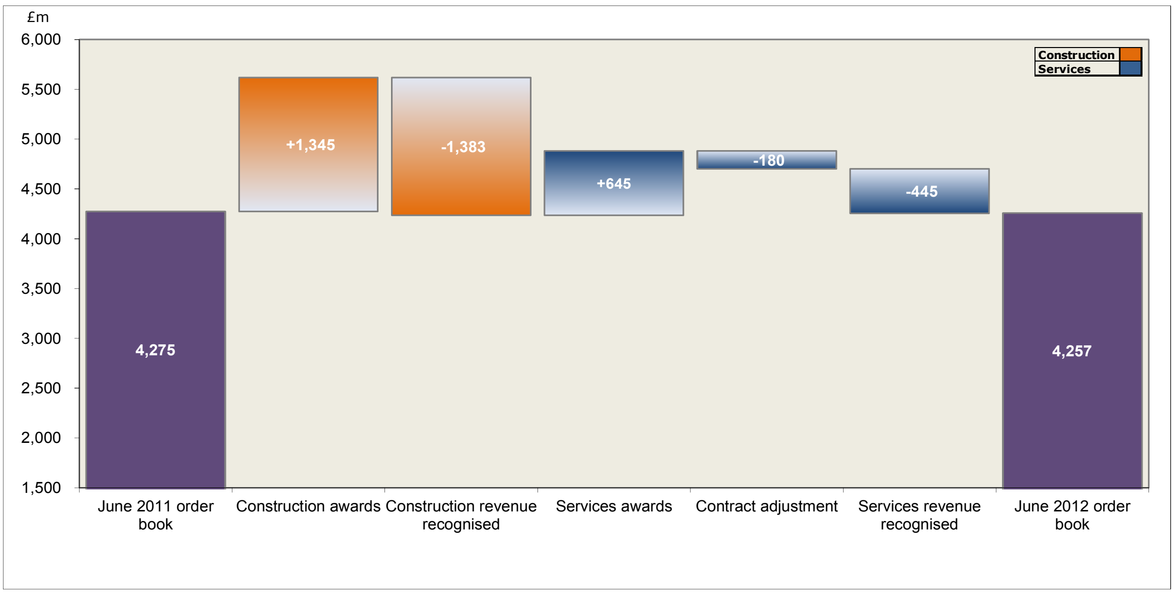
The Group's cash balances at 30 June 2012 include £85m (2011: £73m) held in joint contracting agreements, overseas bank accounts and other cash arrangements which is not readily available to the Group until the contracts near completion. The liquid cash position is also affected by seasonal, monthly and contract-specific cycles.

Order books

We have maintained our order books in Construction and Services at a combined level of £4.3bn, as shown in the table below, which means we enter the new financial year in a strong position with 95% of the Construction division's targeted revenue and 91% of the Services division's targeted revenue for 2013 secure and probable.

At 30 June	**2012 £m**	**2011 £m**
Construction	**2,207**	2,245
Services	**2,050**	2,030
Total	**4,257**	4,275

During the year, the Services division has experienced pressure on work volumes from our local authority clients with lower levels of additional work than in previous years and volumes much closer to the contracted amounts. However, in one area the workload is now forecast to be below the contracted amount and therefore we have prudently adjusted the order book to reflect this, which has had a negative impact of £180m, as shown in the graph below.



Overall, the graph clearly demonstrates that excluding this adjustment we improved our Construction and Services order books, securing approximately £2bn of new Construction and Services work during the year, which demonstrates the strength of these businesses particularly in the current environment.

Dividend policy
We continue to maintain our progressive dividend policy and taking into account the performance of the Group and its good cash position, the Board has recommended a final dividend of 44.5p, making the full year dividend 66p, an increase of 3% on the total paid in respect of 2011 (64p), and reflecting the confidence in the business going forward. This dividend is 2.4 times covered by underlying earnings per share.

Treasury facilities and policies
The Group has revolving credit facilities, which total £120m, an uncommitted £10m overdraft facility and long-term debt of £30m, all managed by the centralised treasury function.

The revolving credit facilities were negotiated in May 2012 superseding the previous bilateral facilities, and extend to September 2016. A small number of relationship banks provide these facilities which support the Group and its future growth plans. The long-term debt of £30m represents a 10-year UK and US private placement and is due to be repaid in February 2013.

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

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

Balance sheet and capital structure
Total equity at 30 June 2012 was £154m (2011: £164m).

Acquisitions and intangible assets
The balance sheet at 30 June 2012 includes intangible assets of £29m (2011: £27m) of which £8m relates to building maintenance contracts.

During the period to August 2012, we completed and announced two acquisitions as follows:

- in April 2012, we acquired certain of the construction operations of Aberdeen-based Stewart Milne for a total cash consideration of £1m paid on completion; and

- in August 2012, we completed our investment in Biogen (UK) Limited for a maximum total investment of £24.4m, of which £5.4m was invested on completion. A further £2.5m will be invested in December 2012 and another £2.5m in July 2013. The remaining £14m is scheduled to be invested in instalments over the next four years.

Inventories
An analysis of inventories is given below:

At 30 June	**2012** **£m**	**2011** **£m**
Residential land	132	159
Residential work in progress	124	133
Property land and work in progress	86	87
Other work in progress	53	52
Total	**395**	**431**

At 30 June 2012, residential land and work in progress totalled a combined £256m, a decrease of £36m compared to the June 2011 balance of £292m. This decrease reflects unit and land sales over the year, partially offset by investment in work in progress in our mixed tenure housing business.

At 30 June 2012, our land bank comprised 4,180 plots, down from over 4,800 at 30 June 2011, all with planning permission. It remains our focus to reduce the cash locked up in our land and work in progress for future investment in the Group. In the year, we completed £18m of land sales on deferred cash terms, at an average breakeven profit position. As we have stated previously, the majority of our land was purchased before 2008 and therefore we do not anticipate recognising profit from land sales, the focus being on cash generation.

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

At 30 June 2012, the net deficit under the Kier Group Pension Scheme was £45m (2011: £23m).

The market value of the scheme's assets was £722m (2011: £680m) and the net present value of the liabilities was £781m (2011: £711m). The increase in the net deficit is a result of changes in the key assumptions. The decrease in discount rate to 4.7% (2011: 5.5%) increased the liabilities, while the changes in inflation and the return on the assets, combined with the on-going contributions mitigated this to some extent.

We continue to progress with our recovery plan of additional annual deficit contributions of £8m and we make available our PFI investments where appropriate. In December 2011 we transferred our Hinchingbrooke investment for £3m to the Kier Group Pension Scheme. The Group is committed to continuing to support the funding position of the scheme.

At 30 June 2012, the scheme relating to Kier Sheffield LLP showed a net surplus position of £1m (2011: net surplus £1m). Note 8 to the financial statements includes a sensitivity analysis that highlights the impact of changes to the key assumptions to the Kier Group Pension Scheme and the Kier Sheffield LLP Pension Scheme. Net pension charges of £2.3m (2011: £4.8m) have been made to the income statement in accordance with IAS 19. The lower charge reflects the higher return on scheme assets.

IAS 19 re-presentation
The new pensions accounting will come into force for us for the June 2014 financial year, and will therefore require restatement of the 2013 figures, as comparatives. The expected return on scheme assets and the interest cost on scheme liabilities which are currently reported in the income statement will be replaced with an interest charge on the net deficit, as shown in the table below.

Indicative only Using June 2012 pre-tax figures	**2012** **Current** **£m**	**2012** **New** **£m**	***Change*** ***£m***
Service cost	(12.7)	(12.7)	-
Expected return on scheme assets (June 2011: 7.0%)	57.7	-	*£10.4m net credit is re-presented as £1.6m charge*
Interest cost on scheme liabilities (June 2011: 5.5%)	(47.3)	-	
Interest on net deficit (June 2011: 5.5%)	-	(1.6)	
Total	**(2.3)**	**(14.3)**	***-12.0***

The difference of £12m, in this example, will be re-presented in the statement of comprehensive income. The quantum of the change relates to the difference between the expected return on assets and the discount rate. The greater this difference, the greater the impact of the change in 2014, and vice versa. It should be noted however, that this accounting change has no impact on cash and no impact on the pension deficit. It is simply a re-presentation of the pension figures.

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

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

Haydn Mursell
Finance Director

Consolidated income statement

For the year ended 30 June 2012

	Notes	2012 Before exceptional items £m	2012 Exceptional items* £m	2012 Total £m	2011 Before exceptional items £m	2011 Exceptional items* £m	2011 Total £m
Revenue							
Group and share of joint ventures	2	**2,069.2**	**–**	**2,069.2**	2,178.8	–	2,178.8
Less share of joint ventures		**(38.7)**	**–**	**(38.7)**	(55.8)	–	(55.8)
Group revenue		**2,030.5**	**–**	**2,030.5**	2,123.0	–	2,123.0
Cost of sales		**(1,815.1)**	**(3.2)**	**(1,818.3)**	(1,911.5)	(33.5)	(1,945.0)
Gross profit		**215.4**	**(3.2)**	**212.2**	211.5	(33.5)	178.0
Administrative expenses		**(152.4)**	**(0.4)**	**(152.8)**	(151.8)	(0.8)	(152.6)
Credit on retirement benefit obligations		**–**	**–**	**–**	–	25.7	25.7
Movement in provision for fine imposed by the Office of Fair Trading		**–**	**–**	**–**	–	15.6	15.6
Share of post-tax results of joint ventures		**1.3**	**–**	**1.3**	0.4	–	0.4
Profit on disposal of joint ventures		**6.7**	**–**	**6.7**	5.9	–	5.9
Profit from operations	2	**71.0**	**(3.6)**	**67.4**	66.0	7.0	73.0
Finance income		**2.6**	**–**	**2.6**	3.7	–	3.7
Finance cost		**(7.0)**	**–**	**(7.0)**	(4.2)	–	(4.2)
Profit before tax	2	**66.6**	**(3.6)**	**63.0**	65.5	7.0	72.5
Taxation	4a	**(8.5)**	**0.8**	**(7.7)**	(12.3)	2.1	(10.2)
Profit for the year		**58.1**	**(2.8)**	**55.3**	53.2	9.1	62.3
Attributable to:							
Equity holders of the parent		**57.0**	**(2.8)**	**54.2**	52.7	9.1	61.8
Minority interests		**1.1**	**–**	**1.1**	0.5	–	0.5
		58.1	**(2.8)**	**55.3**	53.2	9.1	62.3
Earnings per share	6						
– basic		**150.0p**		**142.6p**	141.7p		166.1p
– diluted		**147.3p**		**140.1p**	139.8p		163.9p
Adjusted earnings per share (excluding the amortisation of intangible assets relating to contract rights)	6						
– basic		**156.8p**			148.4p		
– diluted		**154.0p**			146.4p		

* Exceptional items as detailed in note 3 relate to:
provision for losses on disposal of the majority of the Plant business;
movement in the provision for a fine imposed by the Office of Fair Trading;
property, land and work in progress write-downs;
acquisition costs; and
pensions past service credit.

All results are derived from continuing operations.

Consolidated statement of comprehensive income

For the year ended 30 June 2012

	Notes	2012 £m	2011 £m
Profit for the year		**55.3**	62.3
Other comprehensive (loss)/income			
Cash flow hedge movements realised on sale of joint ventures		**–**	10.1
Share of joint venture fair value movements in cash flow hedging instruments		**(10.7)**	(4.7)
Actuarial (losses)/gains on defined benefit pension schemes		**(49.0)**	12.6
Other comprehensive (loss)/income before taxation		**(59.7)**	18.0
Deferred tax on items recognised directly in equity (including effect of change in tax rate)			
Share of joint venture cash flow hedging instruments		**2.3**	(1.7)
Actuarial (losses)/gains on defined benefit pension schemes		**7.5**	(7.8)
Taxation on other comprehensive income/(loss)	4b	**9.8**	(9.5)
Other comprehensive (loss)/income for the year		**(49.9)**	8.5
Total comprehensive income for the year		**5.4**	70.8
Attributable to:			
Equity holders of the parent		**4.3**	70.3
Minority interests		**1.1**	0.5
		5.4	70.8

Consolidated statement of changes in equity

For the year ended 30 June 2012

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Attributable to equity holders of the parent £m	Minority interest £m	Total equity £m
At 30 June 2010	0.4	38.8	2.7	72.5	(11.3)	0.2	103.3	0.9	104.2
Profit for the year	–	–	–	61.8	–	–	61.8	0.5	62.3
Other comprehensive income for the year	–	–	–	4.8	3.7	–	8.5	–	8.5
Dividends paid	–	–	–	(22.1)	–	–	(22.1)	(0.5)	(22.6)
Issue of own shares	–	8.1	–	–	–	–	8.1	–	8.1
Share-based payments charge	–	–	–	2.7	–	–	2.7	–	2.7
Tax on share-based payments	–	–	–	1.0	–	–	1.0	–	1.0
At 30 June 2011	0.4	46.9	2.7	120.7	(7.6)	0.2	163.3	0.9	164.2
Profit for the year	–	–	–	54.2	–	–	54.2	1.1	55.3
Other comprehensive income for the year	–	–	–	(41.5)	(8.4)	–	(49.9)	–	(49.9)
Dividends paid	–	–	–	(24.8)	–	–	(24.8)	(0.1)	(24.9)
Issue of own shares	–	8.1	–	–	–	–	8.1	–	8.1
Purchase of own shares	–	–	–	(1.2)	–	–	(1.2)	–	(1.2)
Share-based payments charge	–	–	–	2.9	–	–	2.9	–	2.9
Tax on share-based payments	–	–	–	(0.3)	–	–	(0.3)	–	(0.3)
At 30 June 2012	**0.4**	**55.0**	**2.7**	**110.0**	**(16.0)**	**0.2**	**152.3**	**1.9**	**154.2**

Consolidated balance sheet

At 30 June 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Intangible assets		**28.8**	27.0
Property, plant and equipment		**102.8**	96.0
Investment in joint ventures		**7.5**	9.1
Retirement benefit asset		**1.2**	1.5
Deferred tax assets		**28.2**	34.4
Trade and other receivables		**32.9**	17.6
Non-current assets		**201.4**	185.6
Current assets			
Inventories		**394.7**	430.9
Trade and other receivables		**377.5**	329.9
Income tax receivable		**10.7**	3.0
Other financial assets		**–**	0.2
Assets held for sale		**13.0**	–
Cash and cash equivalents		**159.1**	195.1
Current assets		**955.0**	959.1
Total assets		**1,156.4**	1,144.7
Current liabilities			
Borrowings		**(30.3)**	–
Finance lease obligations		**(1.3)**	–
Other financial liabilities		**(0.3)**	–
Trade and other payables		**(816.6)**	(799.2)
Provisions		**(1.8)**	(10.0)
Current liabilities		**(850.3)**	(809.2)
Non-current liabilities			
Borrowings		**–**	(30.3)
Finance lease obligations		**(7.3)**	–
Other financial liabilities		**(0.3)**	–
Trade and other payables		**(37.2)**	(68.3)
Retirement benefit obligations		**(59.0)**	(31.1)
Provisions		**(47.8)**	(41.2)
Deferred tax liabilities		**(0.3)**	(0.4)
Non-current liabilities		**(151.9)**	(171.3)
Total liabilities		**(1,002.2)**	(980.5)
Net assets	2	**154.2**	164.2
Equity			
Share capital		**0.4**	0.4
Share premium		**55.0**	46.9
Capital redemption reserve		**2.7**	2.7
Retained earnings		**110.0**	120.7
Cash flow hedge reserve		**(16.0)**	(7.6)
Translation reserve		**0.2**	0.2
Equity attributable to equity holders of the parent		**152.3**	163.3
Minority interests		**1.9**	0.9
Total equity		**154.2**	164.2

Consolidated cash flow statement

For the year ended 30 June 2012

	Notes	2012 £m	2011 £m
Cash flows from operating activities			
Profit before tax		**63.0**	72.5
Adjustments for exceptional items			
Provision for losses on disposal of the majority of the Plant business		**3.2**	–
Acquisition costs		**0.4**	0.8
Credit on retirement benefit obligations		**–**	(25.7)
Movement in provision for fine imposed by the Office of Fair Trading		**–**	(15.6)
Property, land and work in progress write-downs		**–**	33.5
Other adjustments			
Share of post-tax trading results of joint ventures		**(1.3)**	(0.4)
Normal contributions to pension fund in excess of pension charge		**(9.7)**	(6.8)
Equity settled share-based payments charge		**2.9**	2.7
Amortisation and impairment of intangible assets		**3.7**	3.4
Depreciation charges		**13.9**	14.5
Profit on disposal of joint ventures		**(6.7)**	(5.9)
Profit on disposal of property, plant and equipment		**(1.4)**	(4.3)
Net finance cost		**4.4**	0.5
Operating cash flows before movements in working capital		**72.4**	69.2
Special contributions to pension fund		**(11.1)**	(12.5)
Payment of acquisition costs		**–**	(0.8)
Payment of fine imposed by the Office of Fair Trading		**–**	(1.7)
Decrease in inventories		**36.0**	19.9
(Increase)/decrease in receivables		**(63.4)**	4.2
Decrease in payables		**(15.4)**	(24.1)
(Decrease)/increase in provisions		**(2.6)**	7.7
Cash inflow from operating activities		**15.9**	61.9
Dividends received from joint ventures		**0.3**	0.1
Interest received		**3.2**	2.7
Income taxes paid		**(2.1)**	(11.4)
Net cash generated from operating activities		**17.3**	53.3
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**6.3**	14.8
Proceeds from sale of joint ventures	8b	**8.1**	13.7
Purchases of property, plant and equipment		**(41.2)**	(28.4)
Purchase of intangible assets		**(1.8)**	(1.4)
Acquisition of subsidiaries	8a	**(4.5)**	(37.7)
Net investment in joint ventures		**(6.9)**	(6.8)
Net cash used in investing activities		**(40.0)**	(45.8)
Cash flows from financing activities			
Issue of shares		**0.3**	0.2
Purchase of own shares		**(1.2)**	–
Interest paid		**(3.9)**	(3.4)
Inflow from finance leases on property, plant and equipment		**9.1**	–
Finance lease repayments		**(0.5)**	–
Dividends paid to equity holders of the parent		**(17.0)**	(14.2)
Dividends paid to minority interests		**(0.1)**	(0.5)
Net cash used in financing activities		**(13.3)**	(17.9)
Decrease in cash and cash equivalents		**(36.0)**	(10.4)
Opening cash and cash equivalents		**195.1**	205.5
Closing cash and cash equivalents		**159.1**	195.1
Reconciliation of net cash flow to movement in net funds			
Decrease in cash and cash equivalents		**(36.0)**	(10.4)
Opening net funds		**164.8**	175.2
Closing net funds		**128.8**	164.8
Net funds consist of:			
Cash and cash equivalents		**159.1**	195.1
Borrowings		**(30.3)**	(30.3)
Net funds		**128.8**	164.8

Notes to the consolidated financial statements

1 Accounting policies

There have been no significant changes to the accounting policies in these financial statements. They have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

2 Revenue, profit and segmental reporting

During the year to 30 June 2011 the Group comprised four divisions: Construction, Services, Property and Homes and it was on this basis that the Group presented its primary segmental information.

Recognising the reduced scale of the Homes division, the Group combined the predominantly asset based operations of the Property and Homes divisions on 1 July 2011 into a single Property division.

The revised structure comprises three divisions, Construction, Services and Property and is the basis on which the Group now reports its primary segmental information. The results for the year to 30 June 2011 have been restated accordingly. Corporate includes unrecovered overheads and the charge for defined benefit pension schemes.

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

Year to 30 June 2012	Construction £m	Services £m	Property £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	**1,383.5**	**444.9**	**240.8**	**–**	**2,069.2**
Less share of joint ventures	(2.7)	–	(36.0)	–	**(38.7)**
Group revenue	1,380.8	444.9	204.8	–	**2,030.5**
Profit					
Group operating profit	35.1	16.7	14.1	(2.9)	**63.0**
Share of joint ventures' operating profit	0.1	–	1.2	–	**1.3**
Profit on disposal of joint ventures	–	–	6.7	–	**6.7**
Group and share of joint ventures	**35.2**	**16.7**	**22.0**	**(2.9)**	71.0
Share of joint ventures – finance income	–	–	0.2	–	**0.2**
– tax	–	–	(0.2)	–	**(0.2)**
Profit from operations before exceptional items	**35.2**	**16.7**	**22.0**	**(2.9)**	71.0
Exceptional items					
Provision for losses on disposal of the majority of the Plant business	–	(3.2)	–	–	**(3.2)**
Acquisition costs	–	–	(0.4)	–	**(0.4)**
Profit from operations	**35.2**	**13.5**	**21.6**	**(2.9)**	67.4
Finance income/(cost)[2]	12.5	(1.4)	(13.7)	(1.8)	**(4.4)**
Profit before tax	**47.7**	**12.1**	**7.9**	**(4.7)**	63.0
Balance sheet					
Total assets excluding cash	376.1	132.9	439.1	49.2	**997.3**
Liabilities excluding borrowings	(588.3)	(118.1)	(109.5)	(156.0)	**(971.9)**
Net operating (liabilities)/assets	(212.2)	14.8	329.6	(106.8)	**25.4**
Cash, net of borrowings	360.6	19.3	(263.4)	12.3	**128.8**
Net assets	**148.4**	**34.1**	**66.2**	**(94.5)**	154.2
Other information					
Inter-segmental revenue	23.3	29.8	0.5	–	**53.6**
Amortisation of intangible assets	–	3.4	–	0.3	**3.7**
Capital expenditure	14.5	16.3	1.4	8.9	**41.1**
Depreciation of property, plant and equipment	3.3	8.0	0.1	2.5	**13.9**

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.

Notes to the consolidated financial statements continued

2 Revenue, profit and segmental reporting continued

Year to 30 June 2011	**Construction £m**	**Services £m**	**Property £m**	**Corporate £m**	**Group £m**
Revenue[1]					
Group and share of joint ventures	1,444.5	483.8	250.5	–	2,178.8
Less share of joint ventures	(1.9)	–	(53.9)	–	(55.8)
Group revenue	1,442.6	483.8	196.6	–	2,123.0
Profit					
Group operating profit	39.3	18.3	7.3	(5.2)	59.7
Share of joint ventures' operating profit	–	–	2.1	–	2.1
Profit on disposal of joint ventures	–	–	5.9	–	5.9
Group and share of joint ventures	39.3	18.3	15.3	(5.2)	67.7
Share of joint ventures – finance cost	–	–	(1.4)	–	(1.4)
– tax	–	–	(0.3)	–	(0.3)
Profit from operations before exceptional items	39.3	18.3	13.6	(5.2)	66.0
Exceptional items					
Past service credit on retirement benefit obligation	–	–	–	25.7	25.7
Movement on provision for fine imposed by the Office of Fair Trading	15.6	–	–	–	15.6
Property, land and work in progress write-downs	–	–	(32.9)	(0.6)	(33.5)
Acquisition costs	–	–	(0.6)	(0.2)	(0.8)
Profit from operations	54.9	18.3	(19.9)	19.7	73.0
Finance income/(cost)[2]	15.3	(0.4)	(11.9)	(3.5)	(0.5)
Profit before tax	70.2	17.9	(31.8)	16.2	72.5
Balance sheet					
Total assets excluding cash	332.1	121.5	470.7	25.3	949.6
Liabilities excluding borrowings	(618.2)	(117.2)	(106.3)	(108.5)	(950.2)
Net operating (liabilities)/assets	(286.1)	4.3	364.4	(83.2)	(0.6)
Cash, net of borrowings	422.8	27.8	(293.0)	7.2	164.8
Net assets	136.7	32.1	71.4	(76.0)	164.2
Other information					
Inter-segmental revenue	3.6	35.7	6.1	–	45.4
Amortisation of intangible assets	–	3.4	–	–	3.4
Capital expenditure	9.6	15.7	0.1	3.2	28.6
Depreciation of property, plant and equipment	4.9	6.7	0.2	2.7	14.5

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

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

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

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

Notes to the consolidated financial statements continued

3 Exceptional items

	2012 £m	2011 £m
Provision for losses on disposal of the majority of the Plant business	**(3.2)**	–
Acquisition costs	**(0.4)**	(0.8)
Past service credit on retirement benefit obligations	**–**	25.7
Movement in provision for fine imposed by the Office of Fair Trading	**–**	15.6
Property, land and work in progress write-downs:		
Land and work in progress held for development	**–**	(32.6)
Property	**–**	(0.9)
	–	(33.5)
Exceptional items before tax	**(3.6)**	7.0
Taxation	**0.8**	2.1
Exceptional items after tax	**(2.8)**	9.1

On 31 July 2012 and 1 August 2012, the Group sold two portfolios of property, plant and equipment for a maximum aggregate consideration of £15.7m. The total impact of these disposals is a loss of £3.2m which has been recorded during the year to 30 June 2012. Further details of these disposals are provided in note 9.

During the year to 30 June 2012 external costs of £0.4m have been incurred and expensed on the acquisition of Biogen (UK) Limited in August 2012 (2011: £0.8m, Beco Limited £0.2m, Kier Developments Limited £0.6m). Further details of these acquisitions are provided in notes 8 and 9.

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

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

The credit has been accounted for following the guidance set out in UITF48 'Accounting implications of the replacement of RPI with CPI for retirement benefits'. As the Group had a pre-existing constructive obligation under the Kier Group Pension Scheme, and the changes from RPI to CPI were notified to scheme members, the past service credit was accounted for as a change in benefits and recognised in the income statement.

On 22 September 2009 the Group was fined £17.9m in respect of The Office of Fair Trading's investigation into cover pricing in the construction industry. An exceptional provision of £18.0m was made in the year ended 30 June 2010 to reflect this potential fine. The Group appealed this fine to the Competition Appeals Tribunal, which on 11 March 2011 announced its decision to reduce the original fine imposed from £17.9m to £1.7m. The exceptional credit in the prior year reflects the write-back of the original provision of £18.0m less the fine paid of £1.7m and the external legal costs of £0.7m.

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

Notes to the consolidated financial statements continued

4 Taxation

a) Recognised in the income statement

	2012			2011		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Current tax expense						
UK corporation tax	**1.3**	**–**	**1.3**	13.0	(5.8)	7.2
Overseas tax	**–**	**–**	**–**	(0.1)	–	(0.1)
Adjustments for prior years	**(6.9)**	**–**	**(6.9)**	0.5	–	0.5
Total current tax	**(5.6)**	**–**	**(5.6)**	13.4	(5.8)	7.6
Deferred tax expense						
Origination and reversal of temporary differences	**15.1**	**(0.8)**	**14.3**	2.8	3.7	6.5
Effect of change in tax rate	**(1.8)**	**–**	**(1.8)**	(1.8)	–	(1.8)
Adjustments in respect of prior years	**0.8**	**–**	**0.8**	(2.1)	–	(2.1)
Total deferred tax	**14.1**	**(0.8)**	**13.3**	(1.1)	3.7	2.6
Total tax charge/(credit) in the income statement	**8.5**	**(0.8)**	**7.7**	12.3	(2.1)	10.2
Reconciliation of effective tax rate						
Profit before tax	**66.6**	**(3.6)**	**63.0**	65.5	7.0	72.5
Adjust: tax on joint ventures included above	**0.2**	**–**	**0.2**	0.3	–	0.3
Adjusted profit before tax	**66.8**	**(3.6)**	**63.2**	65.8	7.0	72.8
Income tax at UK corporation tax rate of 25.5% (2011: 27.5%)	**17.0**	**(0.9)**	**16.1**	18.1	1.9	20.0
Non-deductible expenses	**0.7**	**0.1**	**0.8**	0.7	(4.0)	(3.3)
Effect of change in tax rate	**(1.8)**	**–**	**(1.8)**	(1.8)	–	(1.8)
Capital gains not taxed	**(1.1)**	**–**	**(1.1)**	(2.3)	–	(2.3)
Tax relief on expenses not recognised in the income statement	**–**	**–**	**–**	(0.4)	–	(0.4)
Effect of tax rates in foreign jurisdictions	**–**	**–**	**–**	(0.1)	–	(0.1)
Adjustments in respect of prior years	**(6.1)**	**–**	**(6.1)**	(1.6)	–	(1.6)
Total tax (including joint ventures)	**8.7**	**(0.8)**	**7.9**	12.6	(2.1)	10.5
Tax on joint ventures	**(0.2)**	**–**	**(0.2)**	(0.3)	–	(0.3)
Group tax charge/(credit)	**8.5**	**(0.8)**	**7.7**	12.3	(2.1)	10.2

Notes to the consolidated financial statements continued

4 Taxation continued

b) Recognised in the statement of comprehensive income

	2012 £m	2011 £m
Deferred tax expense (including effect of change in tax rate)		
Fair value movements on cash flow hedging instruments:		
Joint ventures	**(2.3)**	1.7
Actuarial (losses)/gains on defined benefit pension schemes	**(7.5)**	7.8
Total tax (credit)/charge in the statement of comprehensive income	**(9.8)**	9.5

c) Factors that may affect future tax charges

The Chancellor has announced that the UK corporation tax rate will reduce from 26% to 22% over a period of three years by April 2014. The first reduction from 26% to 24% was substantively enacted on 26 March 2012 and is effective from 1 April 2012.

This has had the effect of reducing the net deferred tax asset included in the above figures by £3.7m, with £1.8m being credited to the income statement and £5.5m being charged directly to the statement of comprehensive income.

The reduction in the UK corporation tax rate from 24% to 23% was substantively enacted on 3 July 2012 and is effective from 1 April 2013. This will reduce the Group's future tax charge accordingly.

If the rate change from 24% to 23% had been substantively enacted at 30 June 2012 it would have had the effect of reducing the net deferred tax asset of £29.1m (Group £27.9m asset, joint ventures £1.2m asset) held at this date by £1.9m, with £1.0m being credited to the income statement and £2.9m being charged directly to the statement of comprehensive income.

It has not been possible to quantify the full anticipated effect of the further 1% rate reduction, although this will further reduce the Group's future tax charge and reduce the deferred tax assets accordingly.

5 Dividends

Amounts recognised as distributions to equity holders in the year:

	2012 £m	2011 £m
Final dividend for the year ended 30 June 2011 of 44.0 pence (2010 of 39.5 pence)	**16.6**	14.6
Interim dividend for the year ended 30 June 2012 of 21.5 pence (2011 of 20.0 pence)	**8.2**	7.5
	24.8	22.1

The proposed final dividend of 44.5 pence (2011: 44.0 pence) bringing the total dividend for the year to 66.0 pence (2011: 64.0 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £17.4m will be paid on 28 November 2012 to shareholders on the register at the close of business on 21 September 2012. A scrip dividend alternative will be offered.

Notes to the consolidated financial statements continued

6 Earnings per share

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

	2012		2011	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**54.2**	**54.2**	61.8	61.8
Exclude: exceptional items	**3.6**	**3.6**	(7.0)	(7.0)
Tax thereon	**(0.8)**	**(0.8)**	(2.1)	(2.1)
Earnings excluding exceptional items	**57.0**	**57.0**	52.7	52.7
Add: amortisation of intangible assets relating to contract rights	**3.4**	**3.4**	3.4	3.4
Less: tax thereon	**(0.8)**	**(0.8)**	(0.9)	(0.9)
Adjusted earnings	**59.6**	**59.6**	55.2	55.2
	million	**million**	million	million
Weighted average number of shares	**38.0**	**38.0**	37.2	37.2
Weighted average impact of LTIP and Sharesave Scheme	**–**	**0.7**	–	0.5
Weighted average number of shares used for earnings per share	**38.0**	**38.7**	37.2	37.7
	pence	**pence**	pence	pence
Earnings per share	**142.6**	**140.1**	166.1	163.9
Earnings per share (excluding exceptional items)	**150.0**	**147.3**	141.7	139.8
Adjusted earnings per share (excluding exceptional items and the amortisation of intangible assets relating to contract rights)	**156.8**	**154.0**	148.4	146.4

7 Retirement benefit obligations

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

	Kier Group Pension Scheme		**Kier Sheffield LLP**	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Opening deficit	**(31.1)**	(78.6)	**1.5**	(8.6)
Charge to operating profit	**(1.4)**	(3.5)	**(0.9)**	(1.3)
Past service credits	**–**	25.7	**–**	–
Employer contributions	**20.9**	22.8	**2.2**	1.3
Actuarial (losses)/gains	**(47.4)**	2.5	**(1.6)**	10.1
Closing (deficit)/surplus	**(59.0)**	(31.1)	**1.2**	1.5
Comprising				
Total market value of assets	**721.9**	680.2	**161.2**	159.5
Present value of liabilities	**(780.9)**	(711.3)	**(160.0**)	(158.0)
(Deficit)/surplus	**(59.0)**	(31.1)	**1.2**	1.5
Related deferred tax asset/(liability)	**14.2**	8.1	**(0.3)**	(0.4)
Net pension (liability)/asset	**(44.8)**	(23.0)	**0.9**	1.1

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

in June 2011 £4.5m which was settled through the transfer of the Group's 50% interest in Sheffield Schools PFI project (Academy Services (Sheffield) Holdings Limited); and

in December 2011 £3.1m which was settled through the transfer of the Group's 50% interest in Hinchingbrooke Hospital PFI project (Prospect Healthcare Hinchingbrooke) Holdings Limited.

These amounts have been included as contributions received by the Scheme.

The past service credit arose due to changes announced by the Government to use the CPI in place of the RPI to determine pension increases. This was accounted for as a change in benefits and recognised in the income statement as an exceptional credit. Further details of this credit are provided in note 3.

Notes to the consolidated financial statements continued

8 Acquisitions and disposals

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

	2012 £m	2011 £m
Stewart Milne	**1.0**	–
Beco Limited	**0.2**	1.8
Kier Developments Limited	**–**	33.9
Construction and building services operations of North Tyneside Council	**1.0**	1.0
Pure Recycling	**2.3**	1.0
Total	**4.5**	37.7

External costs of £0.4m have been incurred and expensed during the year to 30 June 2012 on the acquisition of Biogen (UK) Limited in August 2012. (2011: £0.8m, Beco Limited £0.2m, Kier Developments Limited £0.6m).

Acquisition of Stewart Milne
On 27 April 2012 the Group, through its subsidiary Kier Construction Limited, acquired certain businesses and assets of the Aberdeen-based construction operations of Stewart Milne Group.

The consideration of £1.0m representing the fair value of the net assets acquired was paid wholly in cash in April 2012.

The fair value of the identifiable net assets acquired represents contract rights of £1.0m which have been classified as intangible assets.

Acquisition of investment in Beco Limited
On 22 November 2010 the Group, through its subsidiary Kier Limited, purchased the entire issued share capital of Beco Limited. The discounted consideration, payable wholly in cash, was £2.3m, representing the fair value of the net assets.

The consideration is payable as follows:

	£m
Total discounted consideration payable	2.3
Paid at 30 June 2011	(1.3)
Paid during the year to 30 June 2012	(0.2)
Unwinding of discount	0.1
Deferred at 30 June 2012	0.9

The deferred consideration is contingent on the results of the business acquired. It has been discounted to its present value.

Acquisition of investment in Kier Developments Limited
On 14 April 2011 the Group, through its subsidiary Kier Property Limited, acquired from Lloyds Banking Group its 50% interest in the jointly owned Kier Developments Limited incorporating a portfolio of real estate assets.

As a result of the transaction, Kier Property Limited now owns the entire issued share capital of Kier Developments Limited.

The total amount payable to Lloyds Banking Group for the purchase was £91.0m, which was discounted to its present value of £87.1m at 14 April 2011.

The consideration is payable as follows:

	£m
Total discounted consideration payable	87.1
Paid at 30 June 2011	(35.0)
Unwinding of discount	2.4
Deferred at 30 June 2012	54.5

The deferred consideration is a fixed payment due in two instalments of £30.0m in October 2012 and £26.0m in October 2013.

The cash outflow in respect of this acquisition during the year ended 30 June 2011 was £33.9m, being £35.0m paid to Lloyds Banking Group net of £1.1m of bank balances acquired.

Notes to the consolidated financial statements continued

8 Acquisitions and disposals continued

Acquisition of the business and assets of the construction and building services operation of North Tyneside Council
On 6 September 2009 the Group, through its subsidiary Kier North Tyneside Limited, acquired the business and assets of the building services operation of North Tyneside Council. The discounted consideration, payable wholly in cash, was £6.9m, representing the value of the net assets acquired.

The consideration is payable as follows:

	£m
Total discounted consideration payable	6.9
Paid at 30 June 2011	(4.4)
Paid during the year to 30 June 2012	(1.0)
Unwinding of discount	0.3
Deferred at 30 June 2012	1.8

The deferred consideration is a fixed payment due in instalments by March 2014. It has been discounted to its present value.

Acquisition of investment in Pure Recycling
On 14 May 2010 the Group, through its subsidiary Kier Services Limited, purchased the entire issued share capital of Pure Recycling Warwick Limited and Pure Buildings Limited. The discounted consideration, payable wholly in cash, was £6.4m, representing the fair value of the net assets acquired.

The consideration is payable as follows:

	£m
Total discounted consideration payable	6.4
Paid at 30 June 2011	(3.0)
Paid during the year to 30 June 2012	(2.3)
Unwinding of discount	0.4
Deferred at 30 June 2012	1.5

The deferred consideration is contingent on the completion of certain events and on the results of the business acquired and is due in instalments by October 2016. It has been discounted to its present value.

b) Disposal of investments in joint ventures
During the year the Group, through its subsidiary Kier Project Investment Limited, sold its investments in two PFI projects, for combined consideration of £8.1m (Hinchingbrooke Hospital £3.1m and West Berkshire Hospital £5.0m).

West Berkshire Hospital was sold externally and the cash consideration was received in full. Hinchingbrooke Hospital was transferred to the Kier Group Pension Scheme. Further details of this transfer are provided in note 7.

During the prior year the Group, through its subsidiary Kier Project Investment Limited, sold its investment in three PFI projects, Sheffield Schools, Oldham Schools and Norwich Schools, for a combined cash consideration of £13.7m.

The disposal proceeds can be reconciled to the profits on disposal as follows:

	2012 £m	2011 £m
Sales proceeds	**8.1**	13.7
Book value of net assets and loans of joint ventures	**(1.1)**	(7.3)
Sale costs and loan interest receivable included in sales proceeds	**(0.3)**	(0.5)
Profit on disposal	**6.7**	5.9

Notes to the consolidated financial statements continued

9 Subsequent events

Sale of plant business

On 31 July 2012 and 1 August 2012, the Group through its subsidiary Kier Plant Limited, sold two portfolios of assets for a maximum aggregate consideration of £15.7m (Wernick Hire Limited (Wernick): £11.7m and Ashtead Plant Hire Company Limited (Ashtead): £4.0m).

The total impact of these disposals is a loss of £3.2m which has been recorded in the income statement for the year to June 2012 as an exceptional item.

The disposal proceeds can be reconciled to the loss as follows:

	£m
Maximum aggregate consideration	15.7
Less element of consideration attributable to future trading agreements with Wernick and Ashtead	(1.0)
Less provision for disposal costs	(1.7)
Fair value less provision for disposal costs	13.0
Carrying value of assets sold	(16.2)
Loss	(3.2)

The carrying value of the assets sold includes £15.9m originally held in property, plant and equipment and £0.3m originally held in inventories.

Acquisition of Biogen

On 2 August 2012, the Group through its subsidiary Kier Project Investment Limited entered into an agreement to invest £24.4m over a four year period in Biogen (UK) Limited, establishing a 50/50 joint venture with the owner of Bedfordia Group plc.

The Group invested £5.4m in August 2012 on completion of the transaction.

10 Statutory accounts

The information set out above does not constitute statutory accounts for the years ended 30 June 2012 or 2011 but is derived from those accounts.

Statutory accounts for 2011 have been delivered to the Registrar of Companies and those for 2012 will be delivered following the Company's annual general meeting and will be made available on the Company's website, www.kier.co.uk. The accounts have been prepared on a going concern basis which the directors consider appropriate. The auditors have reported on the 2011 and 2012 accounts, their reports were unqualified and did not contain statements under section 498 (1) or (2) of the Companies Act 2006.