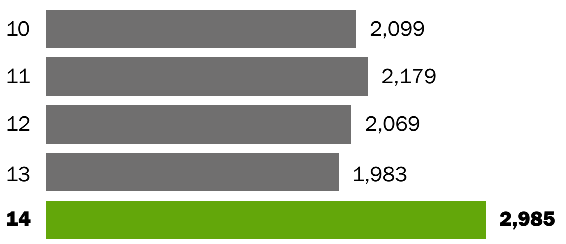
Kier is a leading property, residential, construction and services group which invests in, builds, maintains and renews the places where we work, live and play. We operate across a range of sectors including defence, education, housing, industrials, power, transport and utilities.

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

Financial highlights

Revenue (£m)

£2,985m +51%



Underlying profit before tax* (£m)

£73.1m +54%

Underlying earnings per share* (pence)

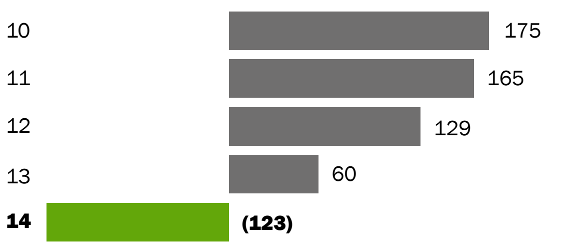
107.7p +2%

Dividend per share (pence)

72.0p +6%

Net cash/(debt) balances (£m)

£(123)m



Order book (£bn)

£6.2bn +47%

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

* Underlying operating profits and margins, pre-tax profits and EPS are stated before exceptional items totalling £42.2m (2013: £17.0m), amortisation of intangible assets relating to contract rights of £10.8m (2013: £3.4m) and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition of £5.3m (2013: £1.3m). Reported operating profit was £35.0m (2013: £35.1m), reported pre-tax profit was £14.8m (2013: £25.9m) and reported EPS was 18.4p (2013: 62.6p). 2013 results have been restated to reflect this presentation (see note 4 page 106).

Kier at a glance

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

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

Property

The Property division encompasses property development and structured project finance.

See page 34 for more information

Residential

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

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

See page 34 for more information

Construction

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

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

See page 38 for more information

Services

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

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

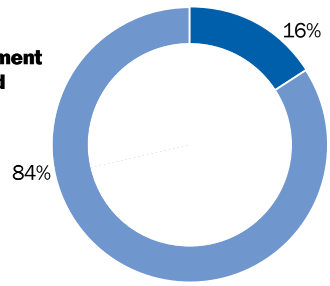
See page 42 for more information

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

Average capital
£(61)m
(2013: £(57)m)

Number of employees
63
(2013: 57)

Revenue
- Property development
- PFI and structured finance

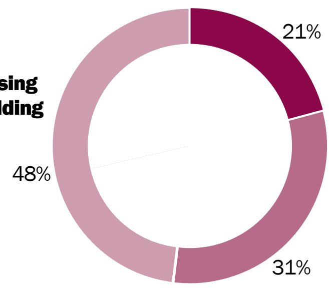


Operating profit[1]
£5.0m
(2013: £4.3m)

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

Number of employees
348
(2013: 293)

Revenue
- Contracting
- Mixed tenure housing
- Private house building



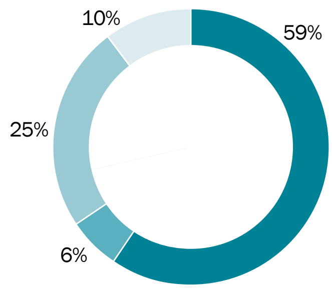
Operating profit[1]
£33.6m
(2013: £30.4m)

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

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

Order book
£2.5bn
(2013: £2.3bn)

Revenue
- Building
- Major projects
- Infrastructure
- International



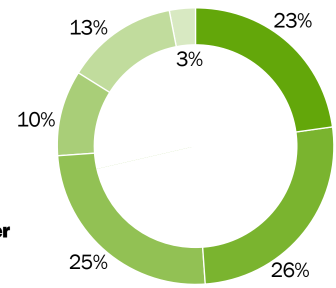
Operating profit[1]
£53.3m
(2013: £19.3m)

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

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

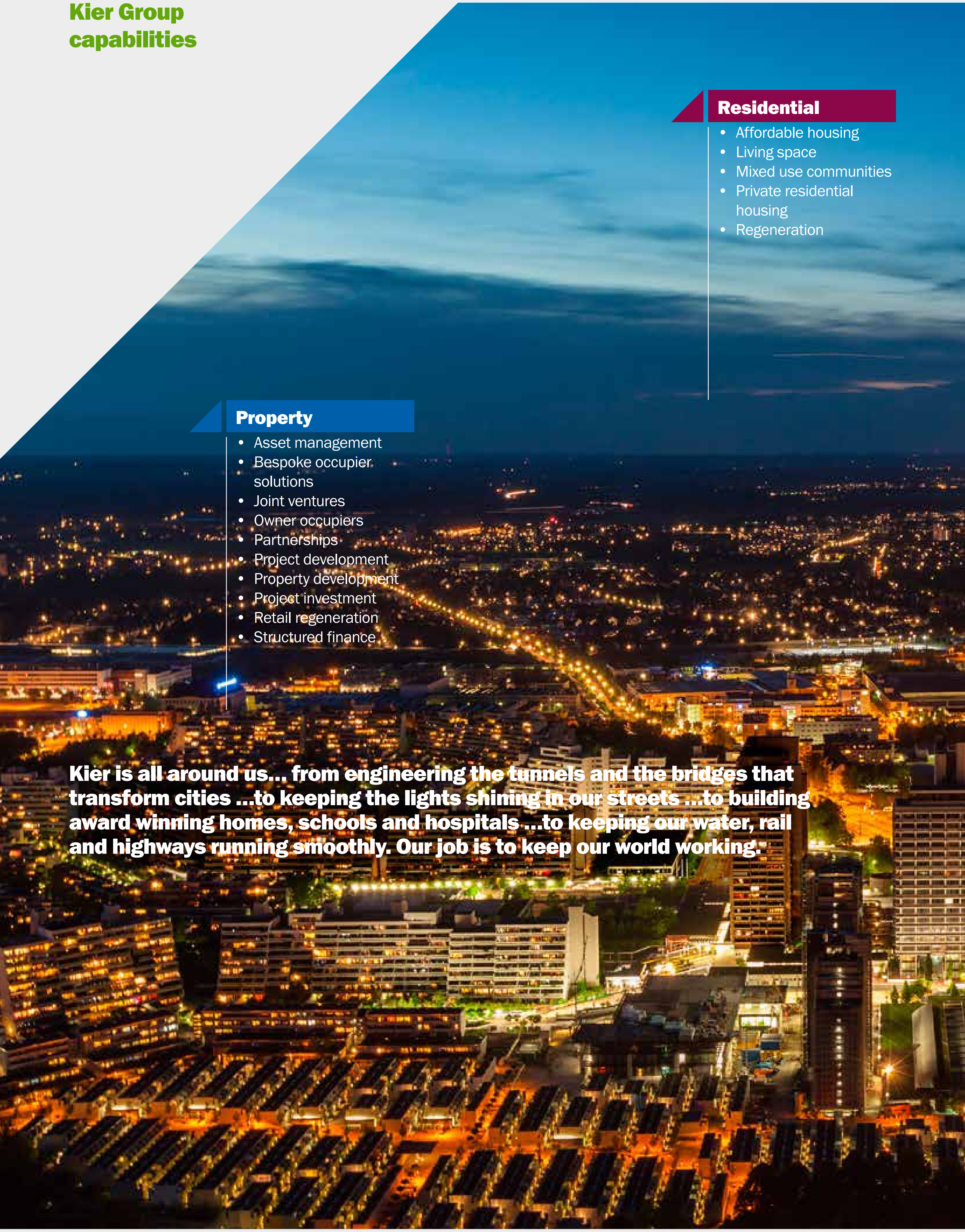
Order book
£3.7bn
(2013: £2.0bn)

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



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

Kier Group capabilities



Residential

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

Property

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

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

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

Construction

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

Services

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

Chairman's statement

A robust business

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

The results

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

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

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

Dividend

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

Strategy

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

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

* Underlying operating profits and margins, pre-tax profits and EPS are stated before exceptional items totalling £42.2m (2013: £17.0m), amortisation of intangible assets relating to contract rights of £10.8m (2013: £3.4m) and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition of £5.3m (2013: £1.3m). Reported operating profit was £35.0m (2013: £35.1m), reported pre-tax profit was £14.8m (2013: £25.9m) and reported EPS was 18.4p (2013: 62.6p). 2013 results have been restated to reflect this presentation (see note 4 page 106).

Dividend per share

72.0p **+6%**

(2013: 68.0p)

Earnings per share*

107.7p **+2%**

(2013: 105.6p)†

The Board

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

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

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

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

Our people

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

Outlook

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

Governance

For details of key governance committees please see:

Nomination Committee

See page 60 for more information

Safety, Health and Environment Committee

See page 62 for more information

Risk Management and Audit Committee

See page 63 for more information

Directors' Remuneration Report

See page 67 for more information

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

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

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

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

Phil White
Chairman

Our markets

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

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

Property

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

Market highlights

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

Market commentary

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

Residential

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

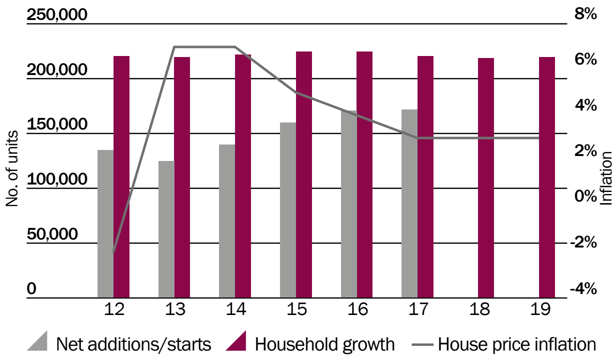
Market highlights

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

Market commentary

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

Projected household growth, additions/starts & house price inflation



Sources: Experian, Knight Frank, management estimates

Construction

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

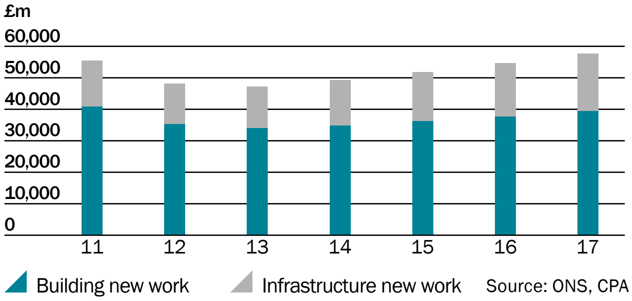
UK – Market highlights

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

UK – Market commentary

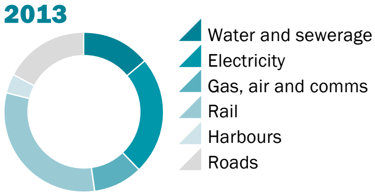
- Building market growth will be driven by private sector recovery, notably in the office, commercial, industrial and retail markets.
- Infrastructure market growth anticipated to be c10% in 2014 driven by rail and road investment (Source: Experian, CPA).
- Medium-term growth in infrastructure driven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

UK Construction – new work (2012 prices)



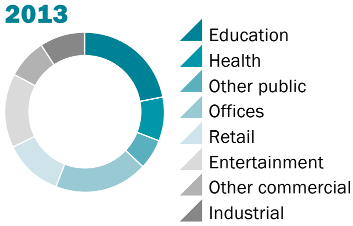
Source: ONS, CPA

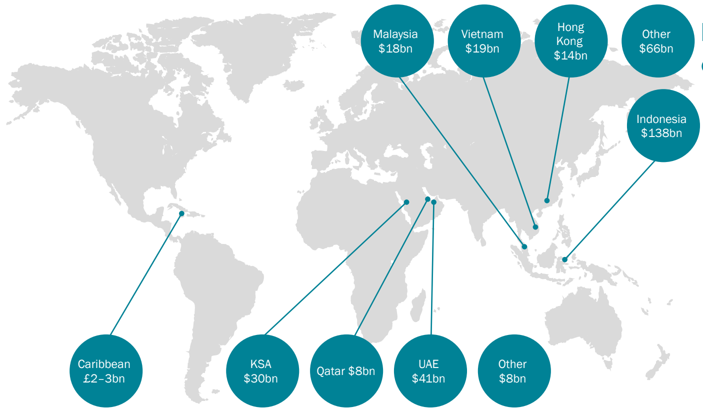
New infrastructure output by sector 2013



Sources: ONS, CPA

Non-residential new building output by sector 2013





International – Market highlights and commentary

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

Sources: Aecom, Deloitte, management estimates

Services

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

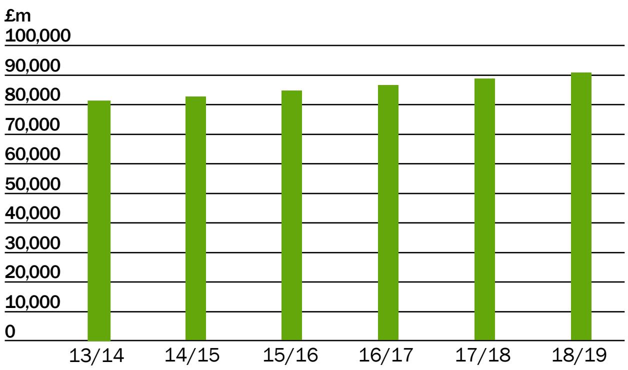
Market highlights

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

Market commentary

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

UK Services – Market size and growth



Sources: BSA Oxford Economics, Credo, ONS

Chief Executive's strategic review

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

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

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

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

Revenue
£2,985m **+51%**
(2013: £1,983m)

Underlying operating profit*
£88.0m **+59%**
(2013: £55.5m)†

Combined Construction and Services order book
£6.2bn **+47%**
(2013: £4.3bn)

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

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

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

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

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

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

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

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

† Restated on adoption of the amendment to IAS 19 (see note 31 page 132).
* Underlying operating profits and margins, pre-tax profits and EPS are stated before exceptional items totalling £42.2m (2013: £17.0m), amortisation of intangible assets relating to contract rights of £10.8m (2013: £3.4m) and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition of £5.3m (2013: £1.3m). Reported operating profit was £35.0m (2013: £35.1m), reported pre-tax profit was £14.8m (2013: £25.9m) and reported EPS was 18.4p (2013: 62.6p). 2013 results have been restated to reflect this presentation (see note 4 page 106).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Vision 2020

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

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

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

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

Q What are the risks in achieving Vision 2020?

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

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

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

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

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

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

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

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

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

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

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

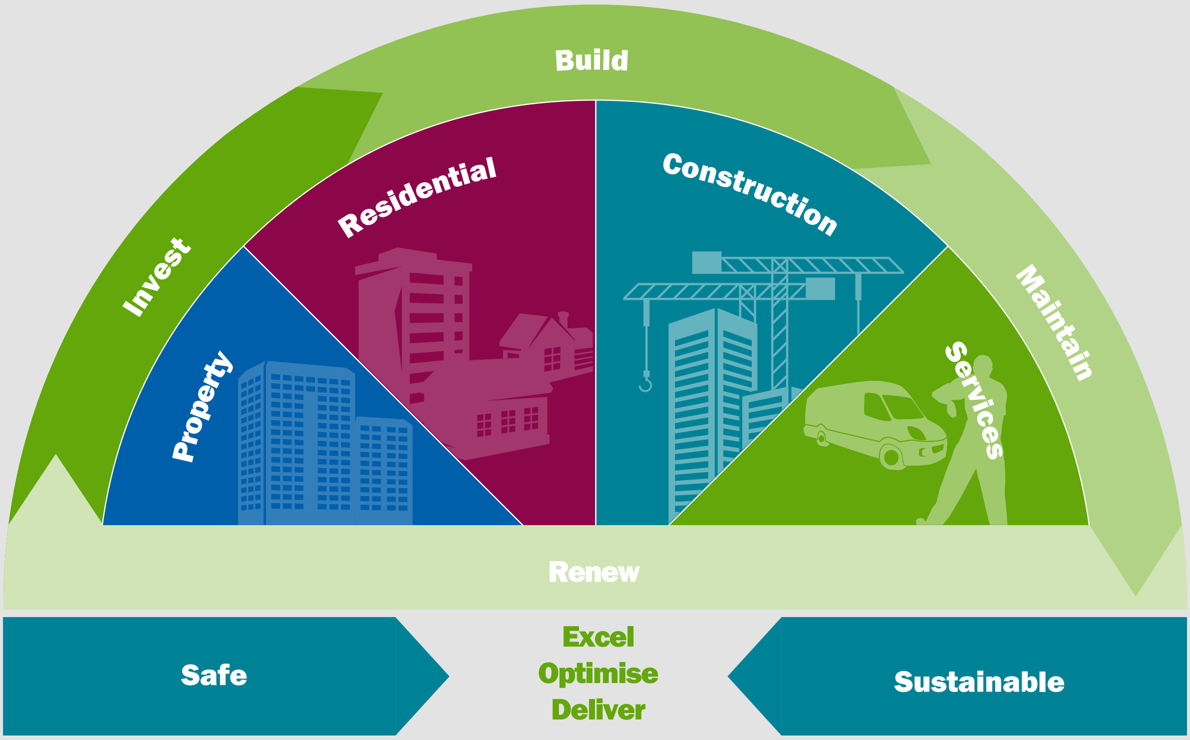
Q Where do you see Kier in 2020?

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

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

Our business model

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



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

Key performance indicators

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

See page 26 for more information

Resources and relationships

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

See page 28 for more information

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

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

Key risks to manage

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

See page 32 for more information

A culture of good governance

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

See page 52 for more information

Our vision and strategic priorities

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

Our strategy – double-digit growth

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

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

To achieve Vision 2020 we have identified six imperatives:

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

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

Property

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

Residential

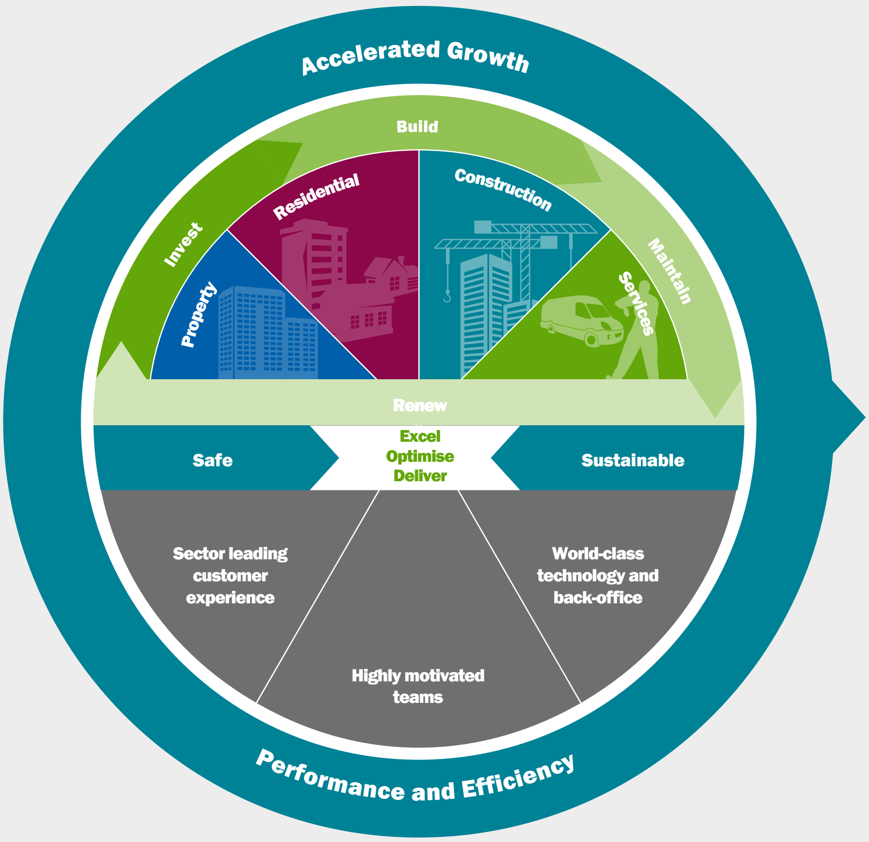
- Scale up our house building activities, primarily in the mixed tenure and social housing market segments.
- Redeploy capital from the legacy land bank to new land acquisitions and to less capital intensive, lower risk mixed tenure opportunities.
- Target a medium-term return on capital in excess of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

Construction

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

Services

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



Vision 2020

Safety
Zero harm

Profit growth
>10% CAGR

Shareholder return
Progressive dividend

Customers
+90% Customer satisfaction

Property
>15% ROCE

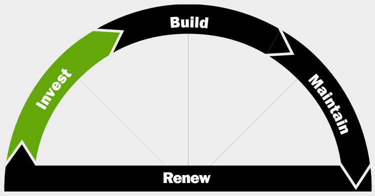
Residential
>15% ROCE

Construction
>2.5% EBITA

Services
>5% EBITA

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

Creating new platforms for growth



An end-to-end partnership approach to project management

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

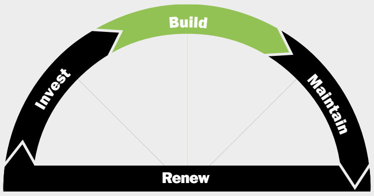
The Health Campus Partnership LLP has selected our specialist project investment business as its development and management partner for a £240m mixed use scheme that is bringing new life to a derelict 65-acre former hospital site in west Watford.

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

Audit House, Embankment, London

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

Creating new platforms for growth



Delivering our technical expertise over the long term

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

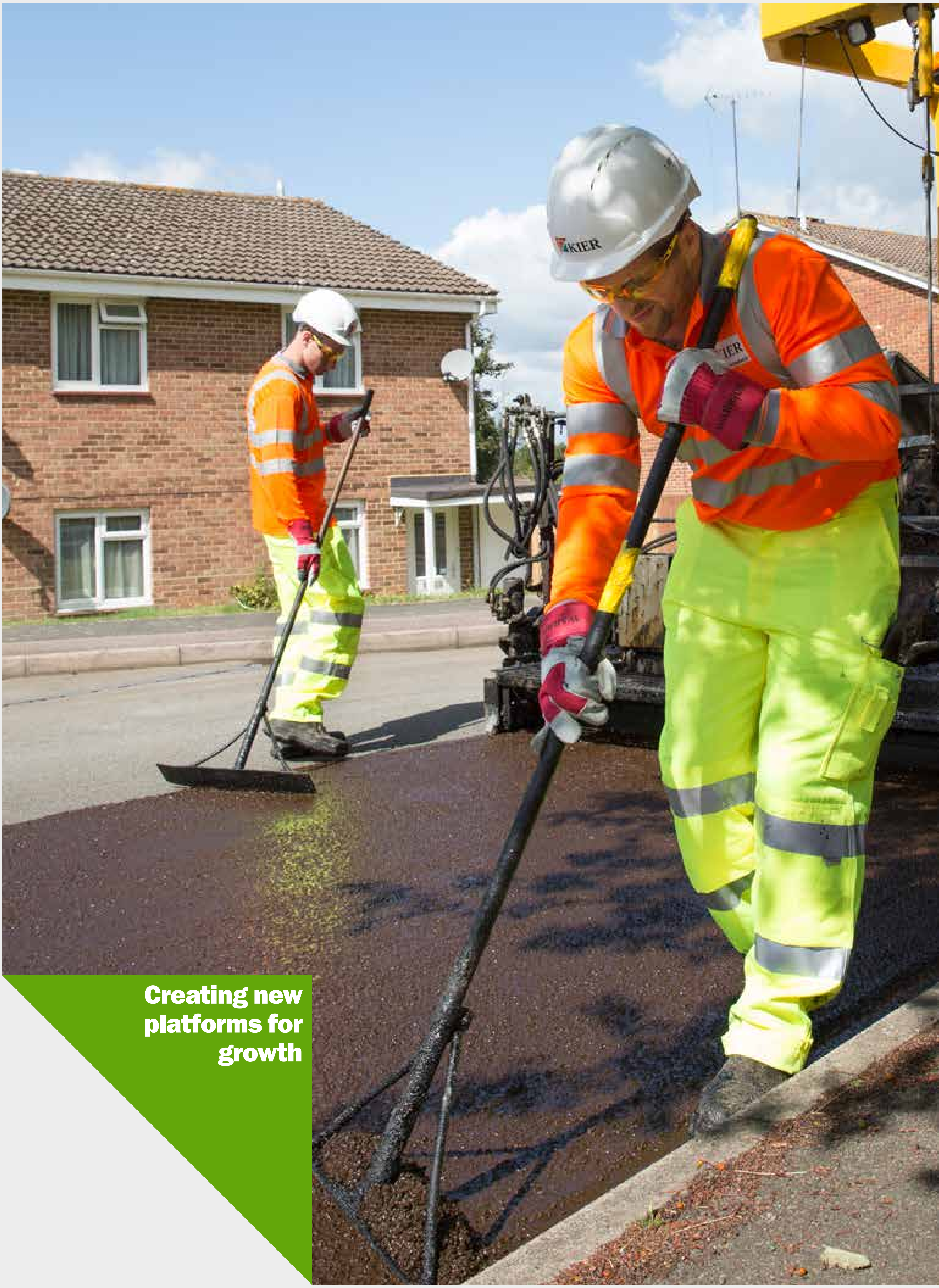
We have now been working for several years on the multi-phased, 67-acre redevelopment of London's King's Cross area for King's Cross Central Limited Partnership. One of our most significant projects there to date has been to build the Arthouse, an eight-storey development of 143 one, two, three and four-bedroom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

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

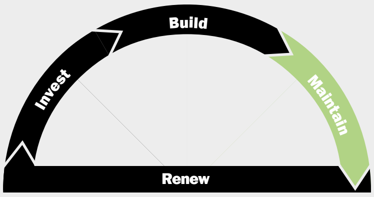
Working on such a sensitive building takes a very high degree of technical expertise. Built by the Great Northern Railway in 1850, the Shed needs to retain its integrity as a historic building of national importance while providing a very high level of performance.

Frameworks

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



Creating new platforms for growth



Realising the value of going that extra mile

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

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

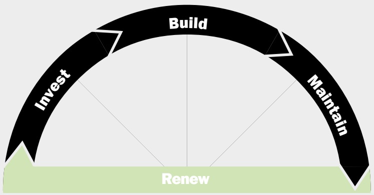
We can control both the cost and the quality of the surface-dressing materials used by our highway teams. Through our in-house production, we lay over 9 million square metres annually with a success rate of over 99.9%.

Torbay Council

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

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

Creating new platforms for growth



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

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

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

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

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

Woking PFI

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

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

Key performance indicators (KPIs)

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

Financial

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

1 We calculate ROCE by dividing underlying operating profit* for a period by the sum of long-term borrowings, long-term finance leases and total equity at the end of the period.
2 We calculate economic profit by taking underlying operating profits* and subtracting year end capital employed multiplied by the weighted average cost of capital.
3 The Group held a net cash balance[10] of £46.1m as at 30 June 2013.
4 Health & Safety Executive (HSE) benchmark AIR for the UK Construction industry: 414.
5 Restated pro forma for the 12 months ended June 2013 to include May Gurney; the underlying May Gurney activities reduced AIR by 43% in the year from 1,168 to 663 whilst Kier performance excluding May Gurney improved by 26% from 333 to 248 in the same period.
6 This reflects the percentage improvement in client survey scores for the Services division excluding May Gurney against the survey conducted in 2011.
7 Based on a biennial survey.
8 We define retention as the total number of employees in the period less those employees leaving the Group voluntarily, as a proportion of the total number of employees.
9 CIPD June 2013 Survey, UK industry average 88.2%.
10 Including finance lease obligations.
* Underlying operating profits and margins, pre-tax profits and EPS are stated before exceptional items totalling £42.2m (2013: £17.0m), amortisation of intangible assets relating to contract rights of £10.8m (2013: £3.4m) and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition of £5.3m (2013: £1.3m). Reported operating profit was £35.0m (2013: £35.1m), reported pre-tax profit was £14.8m (2013: £25.9m) and reported EPS was 18.4p (2013: 62.6p). 2013 results have been restated to reflect this presentation (see note 4 page 106).
† 2013 results have been restated on adoption of the amendment to IAS 19 (see note 31 page 132).

Strategic objectives

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

Non-financial

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

Resources, relationships and sustainability

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

Introduction

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

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

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

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

Governance

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

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

Our performance

Social

Accident Incidence Rate (AIR)

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

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

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

2 Adjusted pro forma comparative figure.

Community engagement

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

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

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

Employees and training

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

Number of employees in registered development programmes:

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

Diversity

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

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

Stakeholder engagement

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

Participants included representatives of the following organisations:

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

Investors/analysts:
Broker Profile
Legal & General Investment*

Employee representation:
Property
Construction
Services

Supply chain:
Through the Supply Chain Sustainability School

The most important areas identified were:

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

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

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

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

Environmental

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

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

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

* Turnover figure represents calendar year, not financial year.

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

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

Resources, relationships and sustainability
continued

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

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

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

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

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

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

Our performance

Marketplace

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

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

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

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

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

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

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

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

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

Results*

Customer Loyalty	+13%

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

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

Continued engagement – case study

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

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

Customer satisfaction

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

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

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

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

Adding social, economic and environmental value to customer experience

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

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

The Kier Foundation

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

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

Group Corporate Responsibility Report 2014

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

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

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

Principal risks and uncertainties

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

We reviewed and assessed the risks below:

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

Strategic objectives

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

Minor
Moderate
Major
Critical

Movement

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

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

Divisional review: Property and Residential

The development business focuses predominantly on non speculative opportunities.

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

Revenue

£284m **+19%**

(2013: £238m)

Operating profit[1]

£21.0m **+2%**

(2013: £20.5m)

Employees

411

(2013: 350)

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

Property development

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

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

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

With an improvement in the London and south east economy, the office development market has been active. Examples of such opportunities include a 60,000sqft office development in Hammersmith, London which was acquired for £11m and in which Investec has become our joint venture partner. The property has planning permission for offices over seven floors and will be

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

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

Divisional review: Property and Residential
continued

redeveloped, with construction set to commence in early 2015. In addition demolition work is underway at Audit House, 58 Victoria Embankment, London in which Kier holds a 16% equity stake and is the development manager, with Kier Construction appointed as building contractor. In Northampton, a five year option agreement on the Waterside site with Northampton Borough Council for office use was also signed. These opportunities reflect the buoyancy of the office market.

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

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

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

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

PFI and structured finance

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

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

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

Renewable energy firm Biogen, a 50/50 joint venture between Kier and Bedfordia, secured £10m of further funding from the Royal Bank of Scotland (RBS), taking the total funding to £22m under a fully flexible arrangement to support the continued expansion of the business. During the year construction was completed on two new Biogen plants in Wales and financial close reached with the

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

Tomorrow's Valley Hub for a plant in Rhondda, South Wales. With two further plants underway in Hertfordshire and Warwickshire, this brings the total number of plants either operating, in construction or planning to seven. Kier has a 50% investment in Biogen (UK) Holdings Ltd which develops, constructs and operates these facilities.

Residential

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

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

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

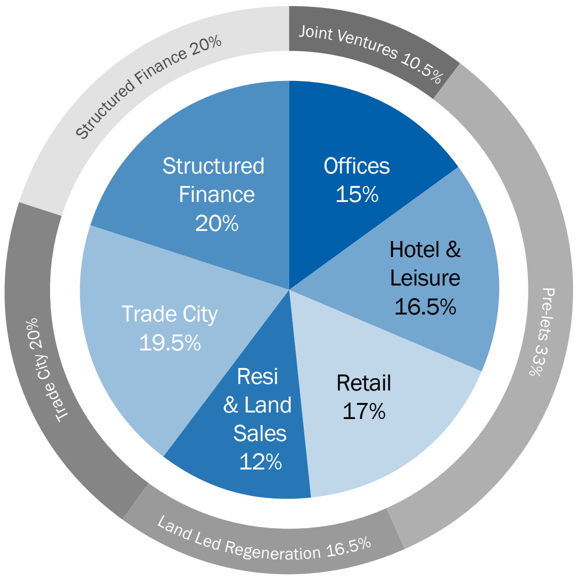
Property and Residential outlook

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

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

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

Our property markets



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

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

Divisional review: Construction

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

Revenue
£1,597m
(2013: £1,307m)
+22%

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

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

Order book
£2.5bn
(2013: £2.3bn)
+12%

Employees
3,720
(2013: 3,911)

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

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

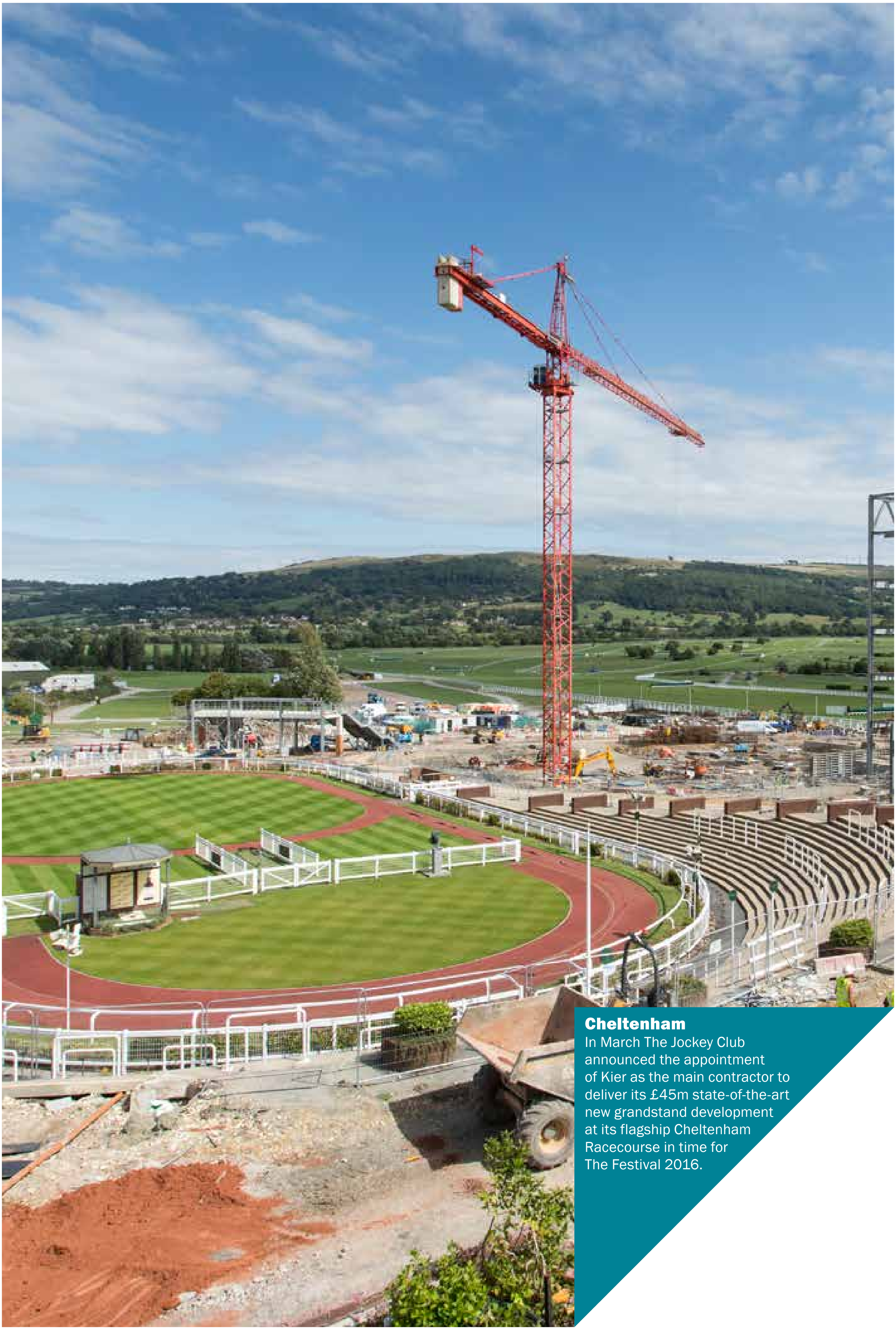
The increase in market activity has resulted in some price inflation with rising labour costs and commodity prices. However, Kier's use of frameworks, greater use of two stage bidding and established supply chain management helped to mitigate this impact. Kier has a large presence in the health, education,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

UK regional building and major projects

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

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

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



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

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

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

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

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

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

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

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

Infrastructure

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

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

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

Our penetration of the rail and water sectors has benefited from the integration of May Gurney, which provides a larger, more sustainable workload for the infrastructure business and broader client exposure. Kier has won places on a number of rail frameworks including the Network Rail Western and Wales regional framework, level crossing and type C signalling frameworks. Work on Crossrail progresses well with completion of some of the works at both Liverpool Street and the western running tunnels expected in the next twelve months. In the water sector, work began on the £180m Deephams sewerage treatment works upgrade, in joint venture with Aecom and Murphy, with additional water projects in excess of £100m to deliver under the United Utility AMP6 framework in joint venture with Murphy and Interserve.

International

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

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

Construction outlook

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

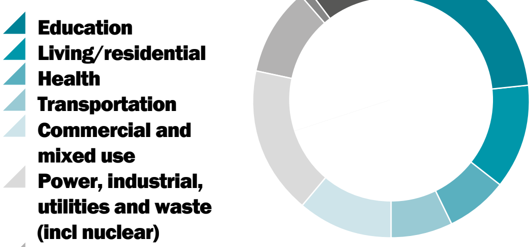
It is anticipated that there will be a rising level of opportunities in the UAE supporting growth in our international operations. In Dubai, the real estate, tourism, transportation and infrastructure sectors are all yielding good opportunities as the economy recovers strongly and as the Emirate prepares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

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

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

* Source: CPA

Construction revenue by sector



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

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

Divisional review: Services

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

Revenue
£1,104m +153%
(2013: £437m)

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

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

Order book
£3.7bn +85%
(2013: £2.0bn)

Employees
10,813
(2013: 5,595)

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

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

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

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

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

Over 70% of Services revenue comes from the public sector where budgets are increasingly constrained. With austerity still on the agenda, public sector bodies are continuing to outsource, albeit smaller value individual contracts, reflecting reduced budgets. Bundled service contracts, such as that with Torbay Council, provide clients with a

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

Anglian Water

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

Divisional review: Services
continued

breadth of offerings and enable to provide cross-sector packages including bespoke packages of support covering investment, building and maintenance. In addition, many of our skills, such as housing maintenance, are transferable to private sector clients and further inroads are being made on increasing our presence in this market, as evidenced by the award of the Genesis and Metropolitan housing maintenance contracts.

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

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

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

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

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

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

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

Operating across approximately one fifth of the UK landmass, our long-term, typically ten-year contracts require consistent high quality service and working in partnership with local authorities. As a strategic partner, Kier can assist local authorities to refine their spending plans and

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

discussions are underway with a number of councils including Northamptonshire County Council, Surrey County Council and Suffolk County Council, where the new £200m contract was mobilised this year. Kier's greater capability in this sector following the May Gurney acquisition has led to further opportunities with the Highways Agency.

Facilities management

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

Other

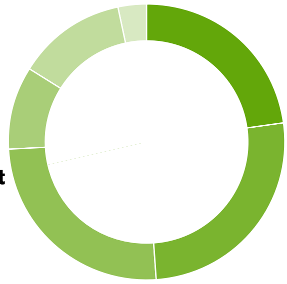
The acquired May Gurney environmental services businesses remain challenging. As previously reported, the environmental business and fleet & passenger services businesses remain under review.

Services outlook

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

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

Services revenue by sector



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

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

Financial review

Strong results

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

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

Accounting policies

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

Financial performance

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

Underlying financial performance

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

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

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

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

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

Operating profit* (£m)
£88.0m +59%

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

Profit before tax* (£m)
£73.1m +54%

Dividend per share (p)
72.0p +6%

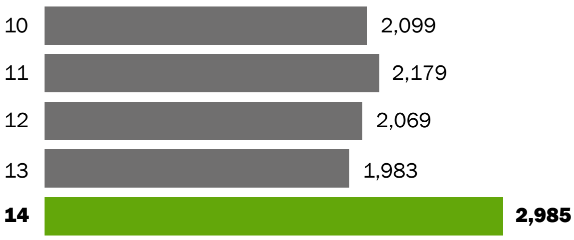
* Underlying operating profits and margins, pre-tax profits and EPS are stated before exceptional items totalling £42.2m (2013: £17.0m), amortisation of intangible assets relating to contract rights of £10.8m (2013: £3.4m) and unwind of discount in respect of deferred consideration and fair value adjustments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

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

1 Group and share of joint ventures.

Revenue (£m)

£2,985m **+51%**



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

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

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

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

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

Financial performance

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

Financial review
continued

Corporate costs

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

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

Net finance costs

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

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

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

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

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

Non-underlying items

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

	2014 £m	2013 £m
Costs relating to the acquisition of May Gurney	**8.1**	1.8
Restructuring and transformation costs following the acquisition of May Gurney	**29.6**	–
Construction Workers Compensation Scheme and related costs	**4.5**	–
Business restructuring	**–**	10.1
Closure and discontinuation of scaffolding and related businesses	**–**	1.9
Loss on disposal of the tower crane and other discontinued businesses	**–**	3.2
Total exceptional items	**42.2**	17.0

* Underlying operating profits and margins, pre-tax profits and EPS are stated before exceptional items totalling £42.2m (2013: £17.0m), amortisation of intangible assets relating to contract rights of £10.8m (2013: £3.4m) and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition of £5.3m (2013: £1.3m). Reported operating profit was £35.0m (2013: £35.1m), reported pre-tax profit was £14.8m (2013: £25.9m) and reported EPS was 18.4p (2013: 62.6p). 2013 results have been restated to reflect this presentation (see note 4 page 106).

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

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

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

Cash performance

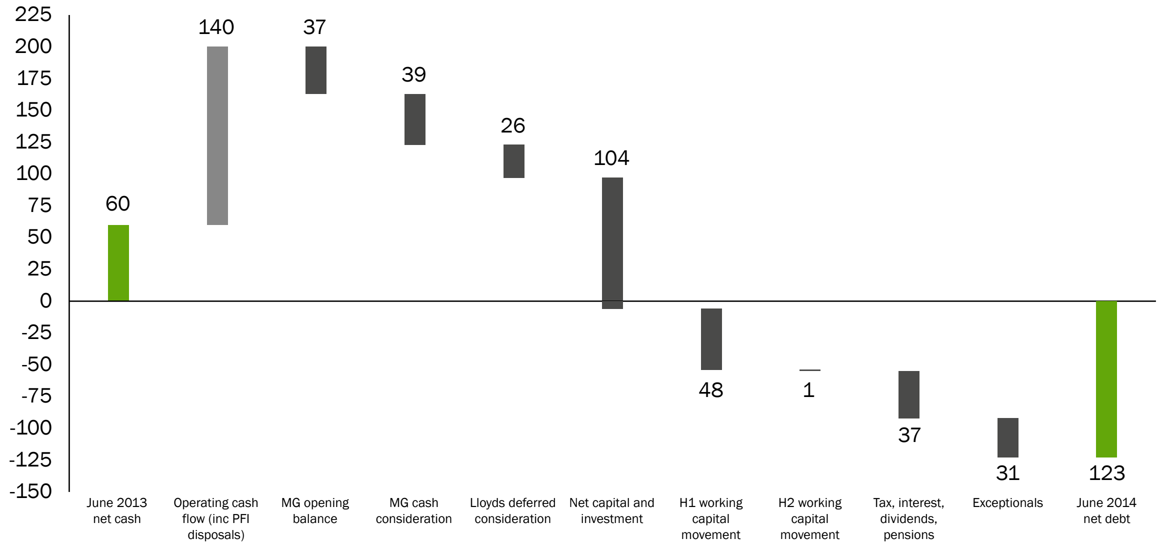
The Group delivered a resilient cash performance, with an average month-end net debt balance of £140m (2013: £4m) after £76m cash cost of the investment in May Gurney, £36m cash outflow in respect of exceptional items, and nearly £130m of capital and investment across the Group, particularly in our mixed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

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

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

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

Cash performance (£m)



Order books

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

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

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

Dividend policy

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

Financial review
continued

Treasury facilities and policies

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

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

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

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

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

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

Balance sheet

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

Corporate activity

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

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

Inventories

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

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

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

Analysis of inventories

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

Pensions

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

The financial statements reflect the pension scheme deficits calculated in accordance with IAS 19. The new pensions accounting standard came into force for Kier for the June 2014 financial year and the 2013 figures, as comparatives, have been restated. The expected return on scheme assets and the interest cost on scheme liabilities, previously reported in the income statement, have been replaced with a net interest cost which is calculated by applying a discount rate to the net defined benefit obligation. The amendment has a corresponding impact on actuarial gains and losses recognised in the Statement of Comprehensive Income, with no overall change to the net retirement benefit liability in the Balance Sheet.

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

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

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

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

Going concern

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

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

Haydn Mursell
Chief Executive