Working together for growth

Kier Group plc

Annual Report and Accounts
for the year ended 30 June 2004

KIER GROUP

Kier Regional

Kier National

Kier Support Services

Kier Residential

Kier Property

Kier Project Investment

For the twelfth year in succession, Kier Group is pleased to report further growth in turnover, profit and earnings per share. The Group is well placed going forward and has high quality, well motivated management teams in place to ensure that this success continues.

Contents

Front cover
Work in progress by Kier Eastern on a new headquarters building for Liebherr in Bedfordshire.

Group highlights

Pre-tax profit

+26.3%

Pre-tax profit up 26.3% to £43.2m*
(2003: £34.2m)

Earnings per share

+21.8%

Earnings per share up 21.8% to 87.2p*
(2003: 71.6p)

Dividend per share

+15.9%

Dividend per share up 15.9% to 19.0p
(2003: 16.4p)

Construction & Services order books

£1.75bn

Construction & Services order books at £1.75bn with improving quality and higher proportion of negotiated and partnered contracts

Homes order book plus completions to 31 August 2004

+43%

Homes order book and completions for the two months to 31 August 2004 are 43% ahead of last year

Prospects for Property

Continuing good opportunities in Property

* Results above are shown after adding back £2.6m (2003: £0.9m) relating to goodwill amortisation. After deducting goodwill amortisation results are:
- Pre-tax profit up 21.9% to £40.6m (2003: £33.3m)
- Earnings per share up 17.3% to 81.5p (2003: 69.5p)

Colin Busby
Chairman

+21.9%

Increase in profit before tax to £40.6m
(2003: £33.3m)

Twelfth year

of continuous profitable growth

Chairman's statement

This is the last set of results upon which I shall report before I retire from the Board at the Annual General Meeting in November 2004. I am pleased to announce that Kier Group has delivered another record level of turnover and profit for the year to 30 June 2004, its twelfth year of continuous profits growth since our employee buy-out in 1992 and a year in which Kier was awarded Building Magazine's 'Major Contractor of the Year' for the fourth time in the last six years.

Financial performance

A strong financial performance was achieved across all reporting segments. Overall operating profits, after deducting goodwill amortisation of £2.6m (2003: £0.9m), rose 25.7% to £42.6m (2003: £33.9m). Turnover grew by 2.1% to £1,476.5m (2003: £1,445.6m) and profit before tax increased by 21.9% to £40.6m (2003: £33.3m). Basic earnings per share at 81.5p rose 17.3% (2003: 69.5p) and, after adding back goodwill amortisation, adjusted earnings per share rose 21.8% to 87.2p (2003: 71.6p).

The Board proposes a final dividend for the year ended 30 June 2004 of 13.0p (2003: 11.2p) making 19.0p for the year (2003: 16.4p) an increase of 15.9% and covered 4.3 times by basic earnings per share. The dividend will be paid on 7 December 2004 to shareholders on the register on 1 October 2004 and there will be a scrip alternative.

A good cash performance was achieved in the Regional business which recorded annual average cash balances ahead of last year. Overall Group net cash (after borrowings) reduced, as anticipated, by £54.4m to £7.6m at 30 June 2004 (2003: £62.0m). The outflow represents an expected increase in working capital brought about by an unwinding of the advance cash held at 30 June 2003 on the sale of the office development at Whitehall, further investment in housing and property development, a planned reduction in turnover in the National construction business and the cash effect of the losses reported in Kier Partnership Homes and Kier National last year. Since 30 June 2004 Kier Property has completed the sale of the National Trust's headquarters building to private investors, ahead of construction completion, and we have refinanced one of our early PFI projects, Hairmyres Hospital. Together these transactions provided £26m of cash which, along with strong trading, has resulted in Group net funds of £41.6m at 31 August 2004. During the year we increased our unsecured borrowing facilities by an additional £30m to £80m to provide flexibility for seasonal and monthly working capital requirements.

Shareholders' funds increased by £23.7m to £116.4m (2003: £92.7m). Pre-tax return on shareholders' funds was 38.8%, having been at around this level for seven consecutive years.

A fully integrated team

Pensions
The FRS 17 deficit in the Kier Group Pension Scheme, after accounting for deferred tax, has reduced during the year from a net £79.7m to £67.2m at 30 June 2004. The market value of scheme assets rose by 11% whilst liabilities increased by 4%, resulting from a combination of increases in the assumptions regarding salary and price inflation offset by a marginal upward movement in yields. The Group's strategy continues to be to address the deficit over time and recent changes have included increases in pension contributions, changes in early retirement terms and a revised approach to investment strategy. Given that the Scheme is likely to enjoy positive net cash flows, excluding sales of investments, for some years, the Group plans to continue to take a considered and measured approach to future funding requirements. The Group also participates in another defined benefit scheme on behalf of its employees in Kier Sheffield LLP. At 30 June 2004 this scheme showed a surplus, after deferred tax, of £6.4m (2003: £5.1m).

The Board
I shall be retiring from the Board and leaving the Group in the autumn after 35 years with Kier. During that time Kier has been through many ownership changes both private and public. In 1992 I was privileged, along with my Board colleagues at the time, to have led Kier in the first true employee buy-out of a major construction business and, in 1996, to its flotation. Since then the business has evolved into a multi-disciplinary Group with strong management teams.

Over the years I have been fortunate to have worked with some very talented people throughout our organisation, many of whom have risen to senior positions. Managing succession has been crucial and I am pleased that I am leaving a balanced Board, ably led by Group chief executive John Dodds, which has the skills, talent and vision to take the business forward to the next stages. The Group is in good financial shape and in safe hands.

I am handing over my non-executive chairmanship to non-executive director Peter Warry who joined the Board in 1998. Peter, aged 55, is also chairman of Victrex plc and BSS Group plc. He has a good understanding of the workings of Kier and will continue to provide sound advice and guidance in his new role. I wish him every success.

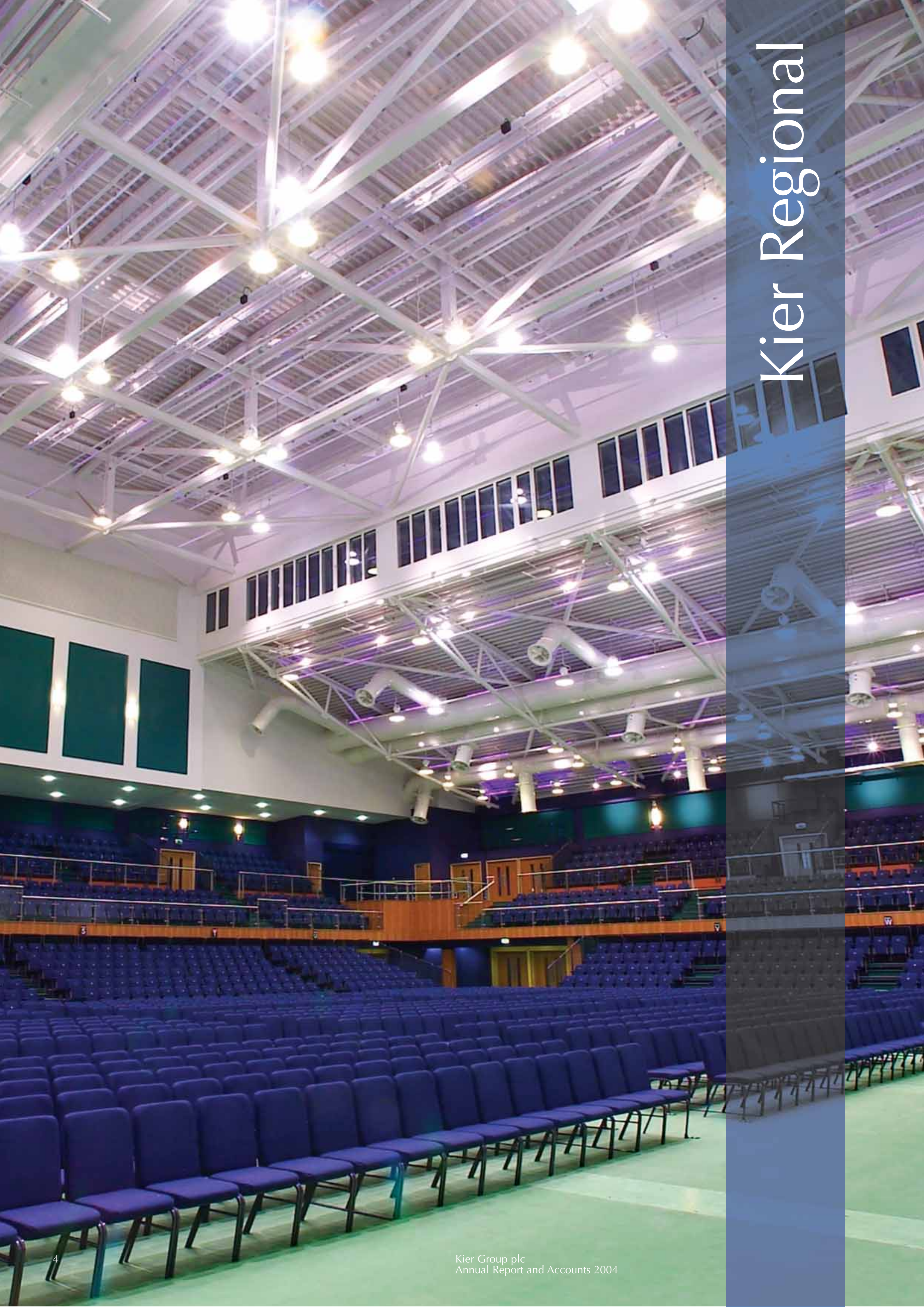
I should like to thank my colleagues and fellow employees for all their hard work and the shareholders for their support over the years and I wish the Group a successful and prosperous future.

Prospects
Our order books in Construction & Services have been maintained at around £1.75bn, containing a higher proportion of negotiated and partnered contracts, and hence are of a better quality, than ever before. In Homes the order book together with unit completions to 31 August 2004 were 43% ahead of last year. Our property development business continues to attract good opportunities to fuel its portfolio. A number of Private Finance Initiative opportunities are available and are being selectively pursued.

All of our markets remain sound. In Construction & Services the market continues to benefit from increased government investment in education, health and affordable housing as well as ample private sector opportunities. In housing the fundamental shortage of new homes continues and demand is supported by high employment and a strong economy. However we are beginning to see signs of the upward trend in interest rates returning the market to more sustainable levels of house price inflation. The Property business will expand further as the portfolio is developed and there are plenty of opportunities available to enhance the business.

Kier's businesses are well positioned to take advantage of market opportunities as they emerge; prospects are good and the Board is confident that the Group will continue to deliver further improved performance and growth into 2005 and beyond.

Kier Regional



Kier Regional

Another successful year for Kier Regional whose unrivalled network of regional construction businesses saw brisk activity across all main market sectors and a further increase in negotiated work.

Centaur building, Cheltenham Racecourse
Moss Construction completed this striking new building in time for the National Hunt Festival.

Turnover increased by 9.4% to

£862.0m

Performance

> Turnover up 9.4% to £862.0m

> Good operating margin

> Strong cash balances throughout the year

> Growing amount of negotiated and partnered work

> Good progress in framework contracting

> Excellent health & safety performance

> Waste reduction strategy successfully implemented

The future

> Major projects capability within Kier Regional

> Remain focused on customer satisfaction

> Continue sustainable, controlled growth

> Continue to bid selectively

> More intra-Group collaboration on mixed use schemes

> Further framework contracting opportunities

> Monitoring of waste across all businesses

Kier National

The National businesses have redefined their risk profile and consequently seen a reduction in turnover this year. However, order books are being rebuilt with higher quality contracts for the future.

Mei Foo Station, Hong Kong
This major station for the Kowloon Canton Railway Corporation is now complete. The project won 'International Performance of the Year' in the 'Quality in Construction Awards 2004'.

Planned reduction in turnover to

£168.7m

Kier National

Kier Support Services

Kier Support Services

Solid progress has been made within the Support Services division, paving the way for further growth and opportunities. The public private partnerships within the building maintenance arm continue to raise standards in quality of product and service.

New van fleet (Kier Sheffield)
The rationalisation programme this year resulted in investment to improve one central depot to meet the needs of the business. IT systems were renewed and a new van fleet introduced.

Turnover increased by 51.0% to

£174.3m

Kier Residential

ALLISON Homes
BELLWINCH Homes
KIER Homes
TWIGDEN Homes

Twigden Homes
The interior of a Twidgen Homes' show home at Fairfield Park, Arlesey, Bedfordshire.

Turnover increased by 19.8% to

£215.7m

+17%

Increase in the number of successfully delivered unit completions

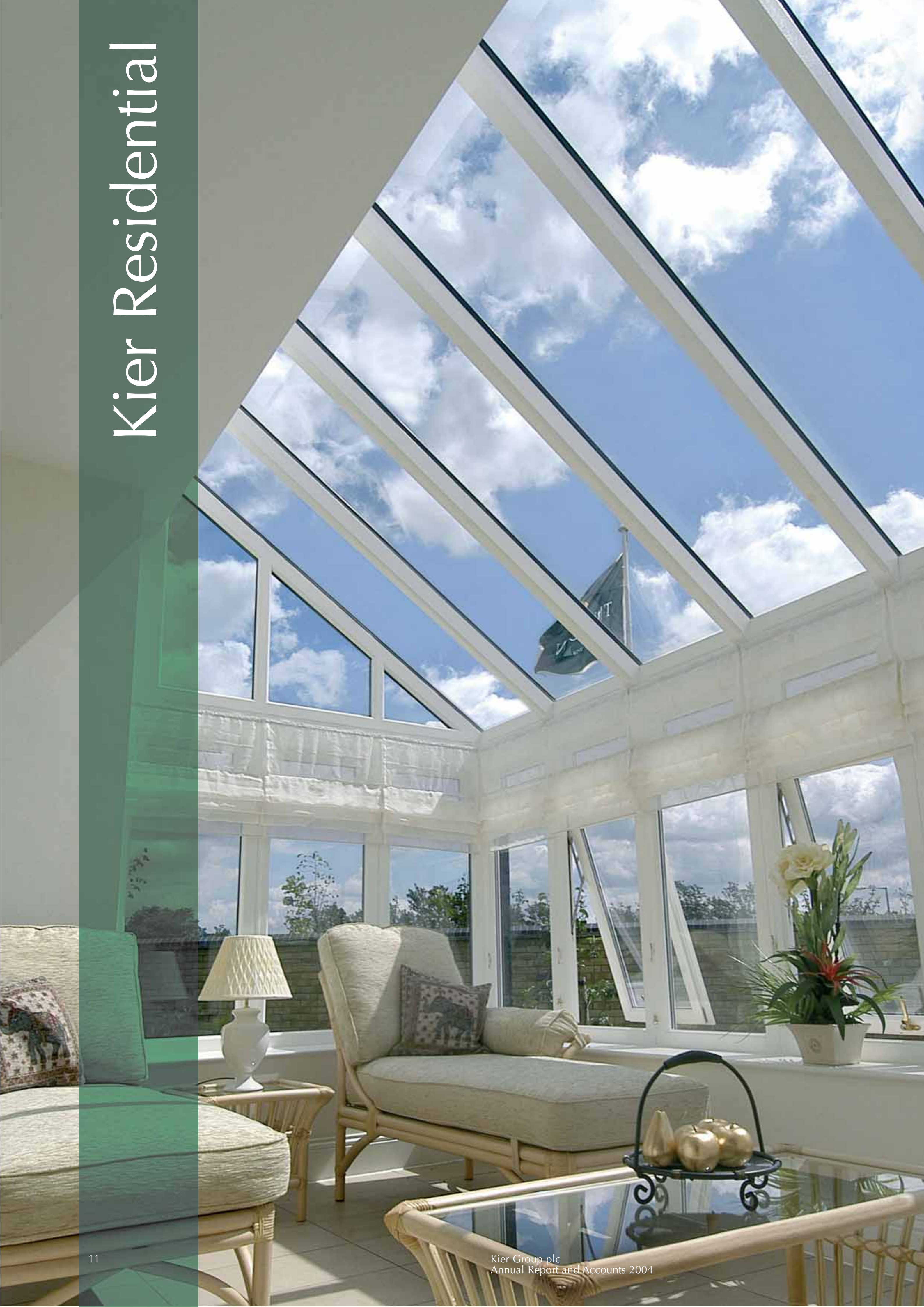
Performance

- > 19.8% increase in turnover to £215.7m (2003: £180.1m)
- > 17% increase in housing completions to 1,158 (2003: 990)
- > 2.4% increase in average selling price to £186,300 (2003: £181,900) with a reduction in average house size generating an increase in average income per square foot
- > At 30 June 2004 we held 4,961 consented plots (2003: 3,700 plots)

The future

- > We have achieved our target holding of over four years' supply of land
- > Our approach to assessing viability of land for acquisition remains cautious and we have a land-bank containing good quality sites, held at prudent values, in desirable locations
- > We anticipate the market returning to lower levels of price inflation over the forthcoming year which should produce a more consistent and sustainable market

Kier Residential



Kier Property

Kier Property

Kier Property has achieved record profits following a very busy year. Both parts of the division – Kier Ventures and Kier Developments – have had notable success and, increasingly, are interacting with other parts of Kier Group to mutual benefit.

National Trust HQ
Kier Ventures started development during the year of the National Trust's new 90,000sq ft central office in Swindon.

Turnover increased by 119.8% to

£46.6m

+32.8%

Increase in operating profit to £8.1m* (2003: £6.1m)

*Before elimination of intra-Group profit

Kier
Project Investment

Kier Project Investment manages the Group's interests in projects procured under the Private Finance Initiative. It continues to develop a portfolio of infrastructure project investments, yielding long-term income stream returns of around 15%, while maintaining a flow of negotiated construction and operational support services contracts for the Group's other operating divisions.

Greenwich Care Homes, London
Kier London completed the construction of three new neighbourhood resource centres for the London Borough of Greenwich. The first of these homes has been registered and is now fully operational, with the other two to follow shortly.

Turnover increased by 43.8% to

£9.2m

£17.9m

Book value of committed investment

Kier Project Investment

John Dodds
Chief Executive

+25.7%
Increase in operating profit to £42.6m (2003: £33.9m)

23.5%
Compound annual growth in earnings per share for eight years

Chief executive's review

Kier has had another successful year to 30 June 2004 and has once again achieved excellent results, providing compound annual growth in earnings per share of 23.5% (before goodwill amortisation) since its flotation on the London Stock Exchange in 1996.

This is the twelfth year in succession in which Kier has delivered increased profit brought about through both organic growth and acquisition. Twelve years ago our profits arose almost exclusively from construction activities. By undertaking strategic investments in housing, property, support services and the Private Finance Initiative and investing in our people, we have developed a business model comprising complementary activities. They provide a balanced cash profile enabling the funds generated by construction operations to be invested in the cash-consuming activities, while operationally we are able to combine complementary skills to offer a fully integrated service to clients throughout the UK. In 2004 we have again seen many examples in which our businesses have worked together to provide a total in-house solution for the delivery of mixed-use developments. As one of the few Groups able to do this we intend to continue to use our skills to generate profit growth from these markets.

Construction & Services
Construction & Services recorded an operating profit of £15.6m (2003: £12.9m) an increase of 20.9% on marginally lower turnover of £1,205.0m (2003: £1,237.9m). Growth in turnover from Kier Regional and Kier Support Services was offset by a planned reduction in Kier National's turnover, largely within the major building projects business. The operating margin of 1.3% (after deducting goodwill amortisation) continues to grow. After adding back goodwill amortisation (largely arising within Kier Support Services) we have achieved our previously stated short-term target of 1.5%.

Construction
Kier Regional achieved another strong financial performance in the year; turnover increased by 9.4% to £862.0m (2003: £787.6m) and cash was, on average, £12m ahead of the previous year, reaching a record year-end balance of £169m. The strength of the Regional business lies in its ability to operate on a local level, through 31 offices, as well as nationally for major clients in both the private and public sectors. This provides flexibility, allowing the business to respond quickly to changing local markets as well as providing a nationally co-ordinated service through Kier Retail, Kier Health and Kier Custodial.

The year to 30 June 2004 saw a record £849m of awards (2003: £760m) of which 36% were for the public sector (2003: 31%) particularly education (21%) and health (7%). Further awards for Kier Health under the ProCure21 initiative for NHS Estates are pending finalisation of contract negotiation. Kier Custodial has been appointed as preferred contractor for new-build prison work under the HM Prisons framework; one of the few selected for all six regions, and is well placed to benefit from a good proportion of the £150m of work expected to be awarded annually for the next 10 years.

Progress continues to be made in Kier Partnership Homes, our social housing business which we acquired in November 2002, following the losses it reported in the year to 30 June 2003. We have implemented management changes and a geographic realignment of the business which is now well positioned to take advantage of the growing level of government spending on

A balanced approach

Kier has had another successful year to 30 June 2004 and has once again achieved excellent results, providing compound annual growth in earnings per share of 23.5% (before goodwill amortisation) since its flotation on the London Stock Exchange in 1996.

social housing and to work with other Kier businesses on urban regeneration projects. Whilst Kier Partnership Homes made a modest loss in the year we are confident that the changes that have been implemented will result in a business that will make a worthwhile contribution to Group profit.

The majority of the turnover in Regional comprises contracts with a value of less than £10m, on average £1.9m. These relatively low value contracts, 52% of which are negotiated or partnered (2003: 42%), continue to improve the quality of the forward workload, which stood at £512m at 30 June 2004 (2003: £430m), and will maintain Kier Regional's robust and consistent financial performance.

Turnover within our major projects business continued its planned reduction, in line with a lower risk profile, to £168.7m (2003: £334.9m). Within the major building business the focus during the last year has been on closing out current contracts and rebuilding the order book with higher quality contracts taken on under two-stage tender, negotiated or partnered terms where the risks can be more appropriately identified and managed.

The civil engineering and overseas business has continued to make good progress on its two major contracts for the Channel Tunnel Rail Link. Our framework agreement for United Utilities is progressing well and we are hopeful of further work under their Asset Management Programme 4. A good result was, once again, achieved overseas. In Hong Kong, Mei Foo, a major station for the Kowloon Canton Railway Corporation, is now complete, winning 'International Performance of the Year' in the 'Quality in Construction Awards 2004'. Through a continuing process of selective tendering we have developed a higher quality, albeit smaller, order book both overseas and in the UK.

Support Services

Our Support Services business operates through two divisions: Building Maintenance and Managed Services, which together provided £174.3m of turnover, 51.0% ahead of last year. The growth is largely attributed to the Building Maintenance division which recorded a full year's turnover of £64.7m from the 10-year outsourcing contract for Sheffield City Council. The operation is providing a greatly improved service to the tenants of the 60,000 housing units we repair and maintain. In addition to our £640m contract we have been announced as one of the preferred bidders for a further £1bn of additional work for Sheffield under the Government's 'Decent Homes' initiative. We anticipate being awarded one-fifth of the work to be carried out over six years to 2010.

Although there have been fewer new opportunities for local authority outsourcing contracts than anticipated we were pleased to have been selected as preferred bidder on two housing repairs and maintenance contracts for Leeds South and Leeds North West, with a combined value of £10m per annum for five years extendable for a further five years.

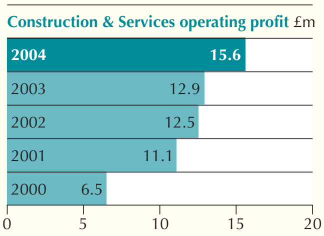
The Managed Services division has also seen an increase in turnover during the year. Contracts have been awarded with Corby Borough Council, Eastbourne Council and the Department for the Environment, Food and Rural Affairs and we have retained existing contracts with key clients. Contracts under the PFI are continuing to grow in number and value with a further £150m secured during the year to be carried out over periods of 25 to 30 years. We are committed to improving margins within this business in what remains a very competitive market.

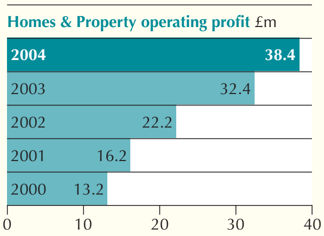
Homes

The strong demand for housing continued through the second half of the year and provided Kier Residential with a 19.8% increase in turnover to £215.7m (2003: £180.1m) arising from a 17% increase in housing completions to 1,158 (2003: 990) and a 2.4% increase in average selling price from £181,900 to £186,300, with a reduction in average house size generating an increase in average income per square foot.

Operating profit increased by 20.9% to £31.8m (2003: £26.3m) lifting the margin to 14.7% (2003: 14.6%). The margin achieved from private housing increased year on year but was dampened by an increase in the proportion of lower margin affordable homes which represented 5% of total unit sales in 2004 (2003: 2%).

During the year £56m was spent on selective land purchases and in January 2004 we acquired the business of Tudor Homes, based in Lincolnshire, at market value for £15.5m, providing 350 plots with planning consent and a further 75 strategic plots.





At 30 June 2004 we held 4,961 consented plots (2003: 3,700 plots) in the land-bank enabling us to achieve our target holding of over four years' supply of land. We also control 15,000 plots of strategic land, mostly under option, which we are progressing through the planning system. Strategic sites are becoming an increasing feature with 18% of unit sales emanating from the strategic land-bank compared with 13% in 2003.

Kier Residential has made progress on a number of sites during the year including mixed-use and urban regeneration schemes. In April 2004 it acquired an eight acre site at Aylesbury for approximately 400 units from a joint venture within Kier Property and is close to exchanging contracts for a six acre site in Poole Harbour with Network Rail which will provide 260 residential units and involve the redevelopment of the railway station and some commercial development. A combination of Kier Residential, Kier Rail and Kier Property will develop this site over a four-year period.

Since the year-end, we have seen a lower level of visitors to our developments than in the same period last year; however reservations remain at acceptable levels and selling prices are holding up without the requirement to provide additional incentives. We are selling units from 18% more sites than at the same period last year. This has contributed to the order book, together with the number of unit completions for the two months to 31 August 2004, being 43% ahead of last year providing a good start to the new financial year.

We anticipate the market returning to lower levels of price inflation over the forthcoming year which should produce a more consistent and sustainable market. Our approach to assessing viability of land for acquisition remains cautious and we have a land-bank containing good quality sites, held at prudent values, in desirable locations which will provide us with a product range for which we believe demand will continue.

Property

The Property division had another very busy year with turnover growing by 119.8% to £46.6m (2003: £21.2m). Operating profit increased by 32.8% to £8.1m (2003: £6.1m) including £1.5m of intra-Group profit made on the sale of land at Aylesbury to Kier Residential which has been eliminated on consolidation. Good progress has been made on the office development at Whitehall which was sold in December 2002 in advance of construction by Kier Build. Completion will be achieved by the end of September 2004 at which point it will be occupied by the Department for Environment, Food and Rural Affairs and serviced by Kier Support Services. Two similarly structured advance sales were achieved in recent months: one in June 2004 for the sale of a headquarters office development for a subsidiary of BAe Systems by our property joint venture with the Bank of Scotland, and the other in July 2004 for a headquarters building for the National Trust being constructed by Kier Regional and adding an £18m cash advance to Group funds in July 2004. In total during the last three years advance property sales have generated over £100m of early cash to the Group and the joint venture.

In the retail sector we completed the acquisition of six development sites from J Sainsbury in March 2004 for £32m. One of the properties was sold in a profitable back-to-back transaction almost immediately and contracts have been exchanged on another with completion expected in the autumn. A regenerative mixed-use scheme is being promoted on a 17-acre site of a former railway works at Ashford for some 700 residential units together with leisure and retail uses.

The business continues to benefit from opportunities in the three main sectors of office, industrial and retail schemes, including mixed-use and regeneration projects. Good returns are being achieved and, unusually for property development, the business was cash positive for most of the year, returning to overdraft temporarily at 30 June 2004 prior to the cash receipt on the sale of the National Trust development in July 2004.

Infrastructure Investment

Our Infrastructure Investment business has had a successful year with PFI awards, having achieved financial close on our second schools project, this time for Waltham Forest, our fourth hospital project which is at Hinchingbrooke, Cambridgeshire and our second library project, at Oldham, with a combined capital value of £83m, all being constructed and serviced in-house. We were also selected as preferred bidder on four schools in Sheffield which will provide Kier Regional with a £50m construction contract and Kier Support Services with a 25-year service contract.

52%

Kier Regional negotiated and partnered awards (2003: 42%)

+17%

Increase in housing completions

+119.8%

Increase in Property turnover

+51.0%

Increase in Support Services turnover

In August 2004 we refinanced our first PFI project, Hairmyres Hospital which won the 'Public Private Finance Award' for 'Best Major Hospital in Operation 2004'. After a contribution to the Lanarkshire Health Board of 30% of the gain, the refinancing provided us with £8.1m of cash. Although no profit can be recognised on the gain until a disposal of the investment, costs of £1.5m have been incurred in connection with the transaction and charged against profit for the year to 30 June 2004.

Our committed investment to the portfolio of 10 projects is £18m, with an expected long-term average yield of around 15%. A secondary market for PFI investments is developing with prices beginning to reflect values in line with our own assessment.

We remain committed to a focused, cautious approach to PFI investment and are keen to take advantage of further opportunities as they emerge.

Health & Safety

Our management teams have focused throughout the year on continuous improvement in all aspects of health & safety in the Group. As part of the overall strategy to raise standards and improve communication within the supply chain we have targeted areas which are of concern to both the industry and Kier. The overall commitment and enthusiasm emanating from the Board and through our management teams ensure the delivery of high standards of health & safety. This has resulted in a 21% reduction in our Accident Incidence Rate to 588 per 100,000 staff and subcontractors measured against the Health & Safety Executive benchmark of 1,172 for the sector.

The achievements of Kier Group companies have been recognised by the award of 14 gold, four silver and one merit RoSPA awards and 21 British Safety Council awards. The Group's Health & Safety strategy is to continue to raise supply chain awareness using the 'Don't Walk By' campaign and to ensure that we reduce accidents and incidents through good communication.

Kier People

I am proud of Kier's achievements and of everyone in the Group who has worked hard to make this year a success. Wherever I go in the Group I am continually impressed by the skills, commitment, professionalism and ingenuity of our people and I thank everyone for their efforts in contributing to an excellent performance, once again, in 2004.

The Board

As announced in July, Colin Busby, the Group's chairman, has decided to retire from the Group and will step down from the Board at the Company's Annual General Meeting in November. Colin, who joined Kier in 1969, led the employee buy-out of the Group in 1992 as chairman and chief executive, and later its flotation on the London Stock Exchange. Since that time the shape of the Group has developed from pure contracting to a business which now includes support services, homes, property and PFI activities. It has achieved compound annual growth in earnings per share of 23.5% since flotation and seen equity shareholders' funds increase from £2.4m to £116.4m.

Colin will leave the Group with a very strong financial base, providing an excellent foundation for future growth. He has the Board's sincere gratitude for his contribution and every good wish for his retirement.

Summary

The Group is in good shape; the risk profile of the Construction businesses has been improving over the last few years through a combination of better contract terms and more focused activities providing us with higher quality order books; our Support Services business is growing steadily through an increasing number of building maintenance contracts and by taking advantage of government spending on social housing; in Homes we have been focusing on a product range in line with demand in our traditional areas of operation, which excludes London, and on selectively replenishing the land-bank; and in Property there are many opportunities for non-speculative development in the office, retail and industrial sectors. Overall the businesses are working well together on mixed-use development opportunities where we have a competitive advantage.

With strong order books, plentiful opportunities and talented, high quality management teams, the Group is well placed to move forward and to deliver further improved performance and growth.

Another successful year for Kier Regional, whose unrivalled network of regional construction businesses saw brisk activity across all main market sectors and a further increase in negotiated work.

Kier Regional

+9.4%

Increase in turnover to £862.0m

List of locations

Kier Eastern
Norwich, Wisbech, Witham

Kier London
Loughton

Kier Northern
Carlisle, Durham, Leeds, Sheffield

Kier North West
Liverpool, Manchester

Kier Partnership Homes
West Malling, Southampton, Aldridge

Kier Scotland
Glasgow, Edinburgh

Kier Southern
Maple Cross

Brazier Construction
Southampton

Henry Jones
Havant

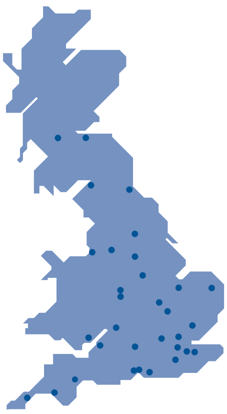
Kier Western
Bristol, Exeter, Newport, Plymouth, Truro

Marriott Construction
Nottingham, Rushden

Moss Construction
Birmingham, Cheltenham, Newbury

Wallis
Maidstone, Bromley

Longley
Crawley



All companies within the Kier Regional network are well established, well managed and remain focused on being well respected locally. As such, they are able to get close to their supply chains, their clients and the communities in which they operate.

Kier Regional's unrivalled UK presence, backed by the strength of Kier Group, provides a rare, competitive edge along with the businesses' ability to share technical expertise and resources. The Regional businesses are adding value by working alongside sister companies and other parts of the Group to offer a total in-house solution for the delivery of mixed use developments. One of few companies able to do this, Kier is optimistic that these markets will provide many more exciting opportunities.

Kier Regional's strategically placed network is ideally suited to respond to wider area framework contracting and the company has been an active member of the NHS ProCure21 healthcare framework. Based on the Kier Retail model, Kier Health, which acts as a central co-ordinator for the Regional business, was selected in September 2003 as one of 12 partners for the NHS ProCure 21 national framework. This will run for a minimum of five years and is estimated to involve an annual spend of £1.2bn. Kier Health currently has 12 healthcare projects at preferred bidder or awarded status with a value in excess of £100m.

Kier Regional, through Kier Custodial, is also one of eight preferred constructors for the provision of new-build prisons and ancillary works, one of the few selected to serve all six regions throughout England, under an HM Prisons framework.

Left
One in a series of 'swap shop' rebrands undertaken by Kier North West for Morrison, following its purchase of Safeway.

Working together

Left
IEI undertook the M&E design and installation of Fusion Point in Cardiff, built by Moss Construction, for Zurich Financial Services.

The company is well placed to benefit from a good proportion of the £150m spend per annum over the next 10 years and is anticipating its first prisons framework contract in the near future.

The company-wide objective of Investor in People (IiP) accreditation made good progress during the year when four more regional businesses, Moss Construction, Kier Northern, Kier North West and Kier Western all achieved accreditation. Stage 3 of BS8555 (environmental management) was also accomplished, placing Kier Regional on track to attain ISO14001 next year.

For each Kier Regional business, being 'locally grown' with national resources and the ability to work in collaboration with other parts of the Group is a unique selling point and one which has won the division a diverse range of work across all building sectors. Flexibility is another of the businesses' strengths and one which has ensured a steady rise in the level of repeat business and negotiated work enjoyed across the division.

At the end of the year Kier Build, the Group's major building projects arm, joined Kier Regional, bringing an added dimension to the division whose UK coverage, expertise and flexibility remains unsurpassed.

The division's mechanical and electrical business, **IEI**, grew its forward order book once again. The highly serviced buildings demanded by the commercial sector continue to form the focal point of IEI's business. Contracts completed for Zurich Financial Services, Portsmouth University and Orpington Hospital during the year typify the projects that make up IEI's strengthening workload, which also includes work for other Kier Group companies.

Kier Eastern's activities exemplify the Group's unique ability to combine local and national resources. The company is currently engaged on two PFI schemes with sister businesses – building a new treatment centre at Hinchingbrooke Hospital, Cambridgeshire, under an initiative led by Kier Project Investment, and working alongside Kier London and Kier Southern in constructing seven new schools in Waltham Forest, also for Kier Project Investment.

Elsewhere, Kier Eastern is building a superstore in Newmarket under a national framework agreement with Waitrose, and a major retail redevelopment that will transform the Norfolk market town of Dereham. A new UK operational centre in Biggleswade has been created for worldwide crane supplier Liebherr, and the final stage of a major office complex in Chelmsford for Countryside Properties was handed over during the year.

Long-term partnering contracts with many local authorities and housing associations have been secured by **Kier London** to carry out Decent Homes standard work. The company's relationship with University College London has continued with the completion of a Neuroscience Building and the topping-out of the Torrington Place Building. New build social housing contracts with major registered social landlords (RSLs) have been successfully secured and the commercial property sector generated a good deal of work during the year. Three care homes for the elderly were completed on a PFI scheme for the London Borough of Greenwich on behalf of Kier Project Investment. The company received a gold Considerate Contractor award from Westminster City Council for its project at Fenchurch Street.

Left
Australian War Memorial, Hyde Park, London, built by Wallis.

Right
A new aircraft hangar facility at Glasgow Prestwick International Airport built by Kier Scotland for Ryanair.

Left
Kier Northern undertook the remodelling and fitting out of the Tetley's Brewery Museum at Brewery Wharf, Leeds, to form new offices and retail units.

Kier Northern's presence in the education, health, retail and residential sectors remains strong and several mixed-use developments were carried out in and around the region. The company completed a number of partnered schools for Doncaster, Middlesbrough and North Lincolnshire Councils and in Newcastle, an intensive therapy unit and ear, nose and throat department was built at the Freeman Hospital. Projects for Pillar Properties at Birstall Retail Park and the National Trust at Wallington Hall both received silver Considerate Constructor awards.

Kier North West is continuing a long-standing client relationship as part of a Group framework agreement by performing a series of 'swap shop' rebrands for Morrison, following its purchase of Safeway. Work on five stores was undertaken during the year. The company also completed the conversion of an existing Morrison store in Southport for use as a Waitrose supermarket.

During the year **Kier Partnership Homes** has worked with several housing associations and RSLs in the provision of affordable, mixed tenure developments. A new office has been established in West Malling near Maidstone, from where the company intends to strengthen its presence in and around the Thames Gateway. With offices also in Southampton and Aldridge, the company will be focused on seeking further growth, increasing its turnover and market share.

Kier Scotland completed a care home for the elderly on behalf of the world charity Little Sisters of the Poor. Time lost as a result of the original contractor's receivership was reclaimed and the 44-bed facility is now fully operational.

Kier Southern's efforts within the local community have been acknowledged through several contract awards from national and local government; the establishment of a number of formal partnerships and strategic alliances; together with local training and recruitment initiatives in conjunction with the CITB to encourage young people to choose a career in construction.

Henry Jones' project to build Bournemouth Library, a PFI contract, won The Prime Minister's Better Public Building award and **ACS**, part of Kier Southern, received a bronze Considerate Constructor award for its project for Three Rivers District Council. During the year, **Brazier Construction** established a formal partnership with Hampshire County Council through which a steady stream of work is expected.

Kier Western's Devon and Cornwall operations have been awarded a four-year framework agreement with the South West Regional Development Agency to undertake formally negotiated projects, continuing the company's philosophy of pursuing longer term business relationships. The company received a bronze Considerate Constructor award for its work to extend and refurbish a Sainsbury store in Swansea.

Work in the higher education sector formed a significant part of **Marriott Construction's** workload. Fitzwilliam College in Cambridge, completed during the year, was highly commended in the 2004 Quality in Construction Awards. The company has been named preferred bidder for extensions to the National Space Centre in Leicester, a major visitor attraction for the region. Marriott's Nottingham office is well positioned to benefit from significant opportunities in the area.

Left
Fitzwilliam College in Cambridge, completed during the year by Marriott Construction, was highly commended in the 2004 'Quality in Construction Awards'.

Left
A major retail scheme at Beckton by Kier Build, now part of Kier Regional, on land remediated by Kier Construction.

Moss Construction completed the striking new Centaur building at Cheltenham Racecourse in time for the National Hunt Festival. The facility was handed over on time, defect free and commissioned for immediate use. The commercial office market continues to represent a major part of Moss's workload with innovative advances in renewable energy sources and sustainability – the National Trust headquarters in Swindon for Kier Property being a prime example. The company's expertise in office refurbishment and fit-out has been recognised by Vodafone for a major programme in Newbury and by Zurich Financial Services in Swindon. Education remains a significant sector, particularly for the Birmingham office, in continued partnership with several local authorities including Birmingham City Council and Worcestershire County Council.

Wallis and **Longley** successfully completed projects for Pillar at Dartford, DeVere Hotels & Leisure in Maidstone and Land Securities in Hastings, together with a number of projects for Tesco and Waitrose throughout the region. The focus this year has been to build an unrivalled reputation within all sectors of the industry, examples of which include the award of a new headquarters building for a housing association and a Community College for local government, together with two schemes within the independent school sector. The interiors market continues to prosper, particularly with its ongoing framework agreement at Imperial College London. Prestigious heritage work continues to thrive with projects at the Tower of London, a new security screen at the Palace of Westminster and refurbishments & restorations in Bond Street, Borough Market, Fleet Street and Spitalfields.

This year saw the opening by HM The Queen and the Australian Prime Minister of the Australian War Memorial at Hyde Park Corner – a challenging and interesting project which culminated in Paul Mock being nominated for the 2004 CIOB Construction Manager of the Year Awards. In 2003 Chris Gooch was awarded a CIOB Construction Manager of the Year Gold Medal for his achievement in the successful completion of the Isle of Sheppey Community Hospital.

Left
Care home for the elderly built by Kier Scotland for the world charity Little Sisters of the Poor.

Kier National

The National businesses have redefined their risk profile and consequently seen a reduction in turnover this year. However, order books are being rebuilt with higher quality contracts for the future.

Kier Build
Kier Build had another challenging year, largely due to the cost of completing two demanding projects: the headquarters for TAG McLaren in Woking and a retail development in Bournemouth for Hampshire Centre Partnerships; both of which were completed during the year, the headquarters building for TAG McLaren being opened by HM The Queen in May.

Other completed projects include a major retail development at Beckton for Castlemore Securities which had the impressive safety record of more than 450,000 hours accident free during the construction process; a new manufacturing facility at Stevenage for MBDA and an office development in Birmingham for Richardson Barberry which collected a Built in Quality award in the commercial buildings catagory from Birmingham City Council. A major commercial office scheme in Whitehall for Kier Property was completed on time in September 2004.

Following the previous decision to de-risk the business and concentrate on negotiated and partnered work, several new major contracts are now under negotiation. These include two projects under the government's new health initiative, ProCure 21, a women's medium secure unit in Ealing and a new cardiothoracic unit in Hull. Other potential awards include a PFI schools contract in Sheffield on which Kier Project Investment has been named preferred bidder and two commercial schemes in Bristol for Crest Nicholson: an office development pre-let to HBOS and a mixed retail scheme.

Kier Construction
Good progress has been made over the past year in bringing together the UK civil engineering and international operations under Kier Construction. The overall strategy of driving risk out of the business by selectively targeting opportunities has been maintained.

UK operations
In the UK two major contracts on the Channel Tunnel Rail Link have progressed well. Tunnel boring on Contract 250 is now complete and final finishing works are well advanced. Contract 103 achieved a major milestone when the bridge to carry the Channel Tunnel lines was slid into position over the West Coast Main Line during the 2003/04 Christmas period. The framework agreement with United Utilities has progressed well and this is being developed for extending into Asset Management Programme 4.

Activity in the nuclear sector has continued with steady progress on a project for AWE at Aldermaston and the award of two contracts for BNFL at Sellafield. A contract to construct a waste treatment station in West London for Shanks Waste Management has also been secured.

Left
Kier Construction's mining division successfully completed the development phase on its private opencast coal mine at Greenburn, East Ayrshire. A new railhead has been constructed and an expected five years' coal production is now under way.

Focused on the future

Left
Channel Tunnel Rail Link Contract 103 achieved a major milestone when the bridge to carry the Channel Tunnel lines was slid into position over the West Coast Main Line during the 2003/04 Christmas period.

The Mining division successfully completed the development phase on its private opencast coal mine at Greenburn in East Ayrshire. A new railhead has been constructed and an expected five years' coal production is now under way. A number of fixed price coal sales contracts have already been secured covering a significant part of the first three years' production.

International operations

Internationally, the strategy of securing negotiated opportunities with key clients and avoiding competitive tendering in local markets has continued. As a result the business has continued to perform well and has encountered an increasing number of opportunities.

In Hong Kong, Mei Foo, a major station for the Kowloon Canton Railway Corporation, is now complete, winning a Quality in Construction Award for 'International Performance of the Year'.

Work in Romania on the social housing and water supply contract is now nearing completion and an extension to the water supply element is currently under negotiation.

In the Middle East, operations continue to be focused on Dubai, where the construction market remains strong. Further drainage contracts have been secured and the company is hopeful that infrastructure contract awards are imminent. Further new work has been secured in Jordan on a phosphate extraction contract for the Jordanian Phosphate Mining Company.

In the Caribbean, the long-term alliance with Alcoa continues to deliver benefits and this year has seen the completion of a plant expansion in Jamaica and the start of another in Suriname. Overall the construction market in the Caribbean is improving and a number of negotiated opportunities are currently being pursued.

Kier Plant

Kier Plant continued its growth over the year. The company now operates from seven depots across the country and supports all divisions, capitalising on the growth within the Group.

Kier Plant's latest depot in Glasgow has been well supported by Kier Scotland and Kier Homes, and continues to attract a good client base for external hires.

The tower crane division has continued to invest in new cranes. The fleet now stands at 90 machines, the largest of which has the capacity to lift three tonnes at 75 metres. Investment in new equipment will continue into 2005 with new site accommodation, tower cranes, forklifts and generators along with newly launched crane accessories available from all depots.

Left
Kier Plant's tower crane division has continued to invest in new cranes – the fleet now stands at 90 machines.

+51.0%

Increase in turnover to £174.3m (2003: £115.4m)

Kier Support Services

Solid progress has been made within the Support Services division, paving the way for further growth and opportunities. The public private partnerships within the building maintenance arm continue to raise standards in quality of product and service.

Building Maintenance

Caxton Islington, the Group's 10-year joint venture with the London Borough of Islington, continues to go from strength to strength. The company has been selected as one of the Borough's key partners to deliver the government's Decent Homes strategy under a framework contract which is expected to increase the order book by circa £30m.

In the **London office,** the London Borough of Greenwich has confirmed its satisfaction with Kier Building Maintenance by committing to a further five year partnership for repairs and maintenance with the opportunity to develop Decent Homes workload. Similar success has seen the London Borough of Ealing award Kier Building Maintenance a rolling five year contract for the maintenance of half its homes and, again, the potential to develop Decent Homes work.

Together with a five year partnership with Family Housing Association and several other social housing contracts, these partnering arrangements support both the quality and strength of the order book in the southern region.

Kier Sheffield LLP completed its first full year of trading and during the period achieved significant progress in establishing the organisation. The rationalisation programme of moving away from remote depots was achieved with significant investment in improving one central depot to meet the needs of the business. IT systems were renewed and a new van fleet introduced. Partnering within the supply chain was introduced, securing investment for the sheltered workshop (Sharrow Industries)

Embracing innovation

Left
Caxton Facilities Management provides all central services for Vauxhall in Luton, one of the company's many long-term private sector clients.

Left
The control centre team at Barking processes and monitors all Kier Building Maintenance work in and around London.

by key manufacturers ensuring its viable and sustainable future. Kier Sheffield was recognised by the industry and its peer groups for the service it provides, being highly commended in the Local Government Chronicle Public Private Partnership Awards and a finalist in the Municipal Journal Awards. Health & safety has been improved and this has been recognised by a RoSPA Silver Award and a British Safety Council Award, all within the first year of trading.

The partnership has placed great emphasis on the relationship with its stakeholders and customer groups which has developed into a strong bond for the future success of the organisation. Having been appointed one of five partnering contractors to develop the investment of £1bn in Decent Homes for Sheffield, the partnership will continue to develop its relationships in and around the city.

Managed Services

Caxton Facilities Management continues to develop its PFI portfolio through focusing on projects in the healthcare, education and other public sectors. The scope of services includes a combination of direct delivery and managed services, including full life-cycle modelling and management.

This year saw the start of services at Farnham Local Care Centre, Redbridge Schools, Greenwich Care Homes and the provision of interim services on the Harrow Schools and Waltham Forest Schools projects. Financial close has been achieved on Oldham Library, Hinchingbrooke (Diagnostic Treatment Centre) and Bexley Schools PFI.

The focus on all schemes has been to fully support the staff transferring from the public sector and to provide appropriate training and guidance to help them adapt to the changes in their working environment. Early involvement and consultation with trade unions and staff representatives has assisted with the smooth implementation of these schemes.

In facilities management, Caxton Facilities Management saw its turnover increase with client retention and sustained growth in both the public and private sectors. Existing key contracts have been retained with the London Borough of Bexley, The Welsh Development Agency, Department for Environment, Food and Rural Affairs (DEFRA) and PricewaterhouseCoopers.

New contracts have been secured with Corby Borough Council, Eastbourne Council and DEFRA. The year has seen the expansion of the Street Services Division and the formation of Grounds Maintenance / Landscaping and Occupational Health Support business streams in order to provide added value to all facilities management clients.

Left
Kier Sheffield was appointed one of five partnering contractors to develop the investment of £1bn in Decent Homes for Sheffield. The partnership will continue to develop its relationships in and around the city.

+17%

Increase in the number of successfully delivered unit completions

Kier Residential

The commitment of the division's teams has successfully delivered unit completions of 1,158, up 17% on 2003.

During this, **Kier Residential's** eleventh consecutive year of growth, the business has capitalised on the market and benefited from strategic decisions taken in the first quarter to increase outlets and production.

Unit completions at 1,158 are up 17% on 2003, with pre-tax profit 23.1% ahead of 2003 at £24.5m. Average sales prices have increased by 2.4% to £186,300, comprising an 8% increase in average selling price and a 5% reduction in the average house size.

The division has been selective in replacing and growing its land-bank. At June 2004 the land-bank with planning consent increased to 4,961 plots (up 34%) and represents 4.3 years' trading (2003: 3.7 years). Of this, 34% is brownfield (2003: 29%). In addition 1,339 plots have been secured, which await detailed planning consent and a further 1,727 plots, are controlled with outline planning permission.

Kier Land's strategic team has grown its portfolio this year to c 15,000 plots (2003: c 12,000) of which over 2,000 plots are now allocated for residential development and await outline planning consent. This strategic land, when consented, will be acquired at a discount to open market value. The contribution to unit sales from former strategic sites rose to 18% (2003: 13%).

The strengthening of the strategic land team announced earlier in 2004 is expected to deliver further opportunities for major housing and mixed use developments.

Following recent interest rate increases, a market with house price inflation easing back to single figures in percentage terms is expected. Since the year-end the number of visitors has also returned to more seasonal levels and customers are thinking more carefully before committing themselves, given the higher cost of borrowing. The supply of housing is a national problem and is likely to prevail for some years to come. Confidence in both product and market areas remains positive and it is believed that the house type ranges and styles continue to provide a real difference for customers when selecting their new homes.

These factors, combined with a stable economy in terms of low inflation and good employment, should help the division to further increase market share this year.

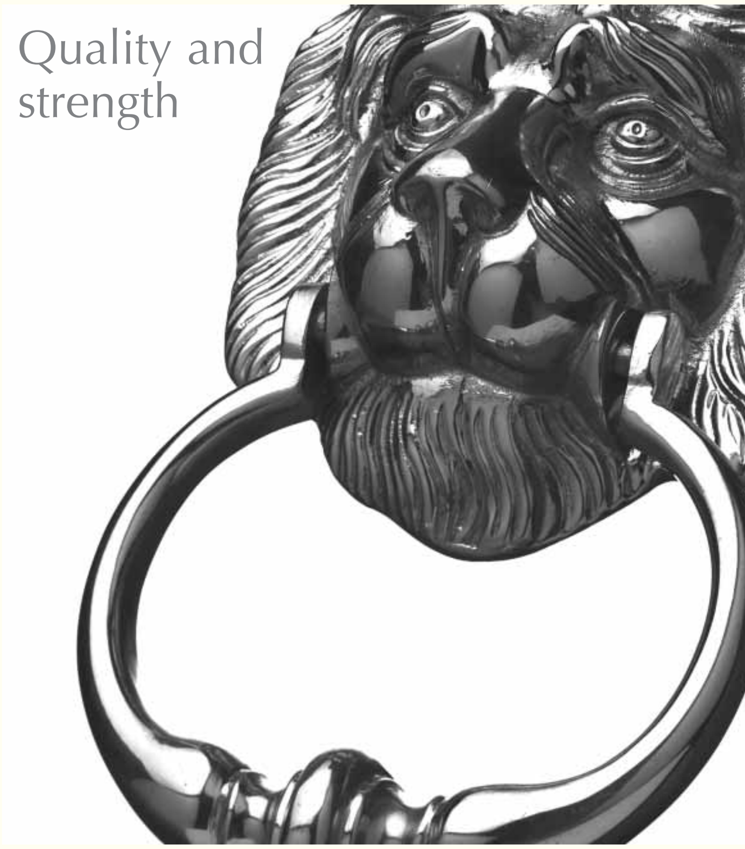
The year to June 2005 started with order books at a record high and at 31 August 2004, the order book plus completions to date were 43% ahead of last year, providing a solid platform for the half-year to December 2004. The company remains committed to expanding the scope and coverage of its housing brands, which now include the Scottish central belt, the East & West Midlands, East Anglia, the south and south east of England.

This financial year **Kier Homes**, operating in Scotland, increased legal completions by 25% to 198 units with average sales prices increasing by 21%, an exception in the division. The market throughout the central belt remained strong during the year and the

Left
Legal completions on homes such as these built by Kier Homes in East Kilbride, increased by 25% to 198 units with average sales prices increasing by 21%.

Left
Bellwinch Homes acquired land in 2004 to continue the production of high-quality well-planned apartment schemes, such as this one in Southampton.

Quality and strength



operating profit contribution from Kier Homes increased. During the year, the management team was strengthened and, with good land secured and under negotiation, Kier Homes is well positioned for future planned growth.

Allison Homes, operating throughout Lincolnshire and now in north Cambridgeshire, has continued to exceed the growth targets set on acquisition in September 2001. Unit completions were up 32% at 318 including a contribution from the business of Tudor Homes acquired in January 2004. Average sales prices eased by 3% in line with planned reduction in house sizes. The market throughout the region was good in the year, with sites north of Lincoln proving very popular and the operating contribution from the business also increasing.

Twigden Homes, operating in East Anglia and the West Midlands, increased unit completions by 17% to 386 units with average sales prices remaining in line with 2003 at £202,400 per unit. This is expected to ease back during the year to June 2005 as the volume of smaller dwellings increases following planning requirements. In line with its business plan, Twigden increased the number of trading outlets in the second half of the year to June 2004 and with land acquired in the year, further outlet growth is planned throughout its operational area.

Bellwinch Homes, operating in the south and south east, produced legal completions of 256 units, marginally down on 2003 (260 units) with operating profit improving. The volumes in this business are carefully planned and land is acquired on a selective basis. During the year the highly successful scheme of 145 apartments and houses at Eastbourne was completed and further land has been acquired in the year to continue the production of high-quality well-planned apartment schemes in key areas such as Southampton, Aylesbury and the Thames Gateway.

Planning changes continue to influence product size and design and there is an increasing requirement for mixed housing, retail and commercial schemes. The mixed-use capability of Kier Residential continues to be promoted. This expertise is deliverable through a one-stop total solution from remediation and infrastructure through to construction of dwellings and other uses in partnership with the Group's Property and Construction divisions.

The division is actively researching modern building methods, techniques and forthcoming regulations to identify any future efficiencies and improved deliverability for the benefit of both the residential businesses and their customers.

Kier Residential has achieved a further four NHBC Pride in the Job Awards and for the first time a CIOB Gold Award for project manager Darren Dockerill at its Eastbourne development. Two Greenleaf Awards were also received in the year.

Left
Operating throughout Lincolnshire and now in north Cambridgeshire, Allison Homes has continued to exceed the growth targets – unit completions were up 32% at 318.

Long-term partnerships

Kier Property

Kier Property has achieved record profits, following a very busy year. Both parts of the division – Kier Ventures and Kier Developments – have had notable success and are increasingly interacting with other parts of Kier Group to mutual benefit.

119.8%
Increase in turnover to £46.6m (2003: £21.2m)

+32.8%
Increase in operating profit to £8.1m* (2003: £6.1m)

*Before elimination of intra-Group profit

Kier Developments, the joint venture with the Bank of Scotland, continued to expand during the year culminating in the acquisition of six sites from J Sainsbury's property arm in March. One of these sites at Kingston has already been sold on, with a second due to be disposed of by December 2004. The remaining four sites are being integrated into the company's growing development programme.

The Trade City brand name has also continued its success in Exeter, where a further phase has been completed, with the recent acquisition of two new sites in Enfield and one in Romford. Demand for these units on either a leasehold or freehold basis has been very encouraging, even before construction has started.

At Maidenhead a major retail scheme is due to start shortly – an 80,000sq ft retail park where Legal & General is providing interim funding and will purchase the final investment. Homebase has been signed up as anchor tenant, with strong interest for the remaining space. The scheme is due to complete in the autumn of 2005.

Construction of the new AMS headquarters building has progressed to timetable with occupation by this BAe Systems subsidiary company expected in spring 2005. In June 2004 the development was sold to a private consortium for over £38m and generated a significant advance cash receipt.

Transcend, a joint venture with Laing Investments, achieved residential planning consent for its site in Aylesbury during the year. The development has been acquired by Bellwinch which will develop around 400 apartments over the forthcoming years.

Left
One of two bespoke chilled distribution warehouse units developed by Kier Property for Fresh Direct at Bicester as part of a 360,000sq ft total development.

Right
Kier Property's Trade City brand name has continued its success in Exeter, where a further phase has been completed. Demand for these units, on either a leasehold or freehold basis, has been very encouraging, even before construction has started.

In **Kier Ventures,** the Group's wholly owned subsidiary, development commenced during the year in Swindon on the National Trust's new 90,000sq ft central office. Moss Construction is the main contractor on this scheme which is due to complete in April 2005. The scheme generated significant interest in the investment market and as a result the development was sold in July 2004.

At Waltham Point, agreement has been reached with J Sainsbury to provide a 100,000sq ft resource recovery unit adjacent to the 700,000sq ft regional distribution centre provided earlier by Kier Ventures. Completion is due by the summer of 2005.

The development at Whitehall for the Department for Environment, Food and Rural Affairs progressed well during the year and completed on target in September 2004. In addition to Kier Build carrying out the construction work, Caxton Facilities Management has negotiated the provision of facilities management services to the client.

During the year the company acquired a key site in London, part of which will be occupied by Kier London as its new 20,000sq ft headquarters. Advanced negotiations are in hand for the remainder of the site to be occupied by a car dealership.

Kier Ventures has also agreed terms with Electronic Data Systems UK Limited (EDS) to provide them with a 200,000sq ft business park in Milton Keynes. This will allow EDS, who are major providers of IT solutions, to amalgamate some of their satellite operations into this new complex. Marriott Construction has been awarded the construction contract and all parties are liaising closely to ensure a start on site by the end of 2004.

The division remains committed to expanding the commercial property operations of the Group and seeking innovative solutions for both occupiers and final purchasers.

Left
Construction of the AMS Headquarters has progressed to timetable, with occupation by BAe Systems expected in spring 2005. In June 2004 the development was sold to a private consortium for over £38m and generated a significant cash receipt.

Kier Project Investment manages the Group's interests in projects procured under the Private Finance Initiative. It continues to develop a portfolio of infrastructure project investments, yielding long-term income stream returns of around 15%, while maintaining a flow of negotiated construction and operational support services contracts for the Group's other operating divisions.

Kier Project Investment – Portfolio

Sector	Projects	Operational	Construction	Preferred Bidder	Short-listed
Health	Hairmyres Hospital	✓			
	Neath Port Talbot Hospital	✓			
	Prospect Park Hospital (West Berks)	✓			
	Hinchingbrooke Treatment Centre		✓		
	Ipswich - Garrett Anderson Medical Centre				✓
Libraries	Bournemouth Library	✓			
	Oldham Library		✓		
	Newcastle Library				✓
Education	Tendring Schools	✓	✓		
	Waltham Forest Schools	✓	✓		
	Sheffield Schools			✓	
	Oldham Schools				✓
Care Homes	Greenwich	✓			

Kier Project Investment (KPI)

The portfolio is varied and nine deals have been signed to date: these include two general hospitals and a treatment centre, a mental health facility, care homes, two schools projects and two public libraries. Kier generally has a 50% investment interest.

KPI continues to pursue new opportunities while playing an active role in the management and delivery of its existing projects. Five projects are now fully operational, four are in the construction phase (two of which are partly operational), one is at the preferred bidder stage and the company is short-listed for three further schemes.

During the year, financial close was achieved on three projects: Hinchingbrooke Treatment Centre, Waltham Schools and Oldham Library. Preferred bidder status was reached on Sheffield Schools.

Healthcare

Hairmyres Hospital in East Kilbride continues to perform well in its third year of operation and won the Public Private Finance Award for Best Major Hospital in Operation 2004. In South Wales, the 250-bed Neath Port Talbot Hospital entered its second year of operation in November 2003. Caxton Facilities Management is providing non-clinical services and the hospital was awarded a prestigious Charter Mark during the year. Prospect Park Mental Health Hospital in Reading has been operational since April 2003 and is delivering a good service.

The Hinchingbrooke Treatment Centre in Cambridgeshire reached financial close in March 2004 and construction by Kier Eastern is due for completion in August 2005. These facilities will be serviced by Caxton Facilities Management.

Libraries

KPI's first library project in Bournemouth was awarded the Prime Minister's Better Public Building Award for 2003. The judges said: "A privately financed scheme has delivered exactly what the local authority wanted…. not just a library but a welcoming hub of the community…. A delighted client, a fine building, first class delivery and incredible value." It is also featured on the cover of the CABE report, Better Public Libraries, 2003 and was listed as one of CABE's 10 favourite buildings of 2003 in its Annual Report.

Kier is also to provide a library and lifelong learning centre for Oldham MBC which will form the second phase of Oldham's new cultural quarter. Design again played a major role in the success of the bid. The project reached financial close in May 2004.

Education

The Tendring Schools project continues to provide services to twelve primary schools in Essex. In March the company signed contracts with the London Borough of Waltham Forest to deliver seven infant and junior schools and one secondary school. Construction commenced immediately and Caxton Facilities Management began provision of FM services to the existing schools in April.

Left
In March the Company signed contracts with the London Borough of Waltham Forest to deliver seven infant and junior schools and one secondary school.

Left
Neath Port Talbot Hospital, Wales. This 250-bed hospital entered its second year of operation in November 2003. Caxton Facilities Management is providing non-clinical services and the hospital was awarded a prestigious Charter Mark during the year.

Care Homes
Kier London completed the construction of three new neighbourhood resource centres for the London Borough of Greenwich five weeks ahead of programme. The first of these homes has been registered and is now fully operational, with the other two to follow shortly.

Future opportunities
Kier Project Investment is preferred bidder for the Sheffield Schools PFI Phase 3 Project and is short-listed for the Garrett Anderson Medical Centre in Ipswich and Newcastle Library. KPI continues to pursue other opportunities, mainly in the key sectors of healthcare and education.

A secondary market for the sale of PFI investments is beginning to develop at values in excess of book value. In August 2004 one of the early projects, Hairmyres Hospital, was refinanced and although no profit can be recognised on this in the short term, £8.1m of cash was raised by the Group after 30% of the gain was shared with the Lanarkshire Health Board.

A solid performance

Left
Hinchingbrooke Treatment Centre, Cambridgeshire. An artist's impression of the Kier Eastern project due for completion in August 2005.

Deena Mattar

Deena Mattar
Finance Director

+17.3%

Increase in basic earnings per share to 81.5p (2003: 69.5p)

Financial review

The Group has again achieved record results for the year to 30 June 2004. Basic earnings per share increased by 17.3% to 81.5p (2003: 69.5p) and after adding back goodwill amortisation, adjusted earnings per share increased by 21.8% to 87.2p (2003: 71.6p). Profit before tax increased by 21.9% to £40.6m (2003: £33.3m), after deducting £2.6m (2003: £0.9m) relating to goodwill amortisation. The cash performance has been in line with expectation and, whilst there has been an overall reduction in the Group net funds to £7.6m (2003: £62.0m), it reflects an increase in investment in Homes & Property and a reduction in cash in the National construction businesses in line with a reduction in turnover and reflecting the accounting losses booked in the year to 30 June 2003.

The Group has adopted UITF 17 (Revised) and UITF 38 in drawing up the financial statements, which require investment in own shares and the provision for share based payments to be shown within shareholders' funds. Consequently the balance sheet at 30 June 2003 has been re-presented; £1.5m has been transferred from fixed assets and £0.8m from creditors and offset as a deduction against shareholders' funds. This has resulted in a reduction in shareholders' funds at 30 June 2003 from £93.4m to £92.7m.

There have been no other changes to accounting policies in drawing up these financial statements.

Profit before tax

Profit before tax of £40.6m (2003: £33.3m) is arrived at after deducting £2.6m relating to goodwill amortisation (2003: £0.9m). Before deducting goodwill amortisation, profit before tax increased by 26.3% to £43.2m (2003: £34.2m) with all segments contributing strongly.

Turnover, orders and land-bank

Group turnover, including share of joint ventures, increased by 2.1% to £1.48bn.

The Construction & Services segment experienced a modest reduction in turnover; Kier Regional's turnover of £862.0m was 9.4% ahead of last year; Support Services' turnover was 51.0% ahead at £174.3m, with a full year's contribution of £64.7m from the 10-year outsourcing building maintenance contract with Sheffield City Council; and Kier National experienced a 49.6% reduction in turnover in the year following its strategy to be more selective and to focus on partnered and negotiated work.

Kier Regional experienced a record order intake of £849m in the year to 30 June 2004, compared with £760m in 2003, reflecting a healthy market largely driven by an increase in public spending. Kier National's orders were £86m, marginally higher than the previous year's orders of £69m, mostly within Kier Construction.

At 30 June 2004 total confirmed orders in hand were maintained at £1.75bn, with order intake to date remaining strong and a healthy pipeline of opportunities awaiting confirmation.

Turnover in the Homes division increased by 19.8% to £215.7m (2003: £180.1m) reflecting a 17% increase in unit sales to 1,158 (2003: 990) and a 2.4% increase in average selling price. The increase in average selling price from £181,900 to £186,300 reflects an 8% increase in selling prices per square foot offset by a 5% reduction in the average size of units. £72m was spent on new land in the year, including £15.5m for the acquisition of land and work in progress, at market value, of Tudor Homes. This contributed to an increase in the number of plots held with planning consent to 4,961 (2003: 3,700) representing 4.3 years' supply. In addition, there are approximately 15,000 plots in the strategic land-bank, mostly held under option.

At 31 August 2004 the order book, together with unit completions for the first two months of the year, were 43% ahead of the same period last year giving the division a good start to the new financial year.

In Property turnover arose from a number of joint venture development sales and the sale of an office development in Whitehall, which is being recognised as construction progresses.

In Infrastructure Investment turnover relates to Kier's share of joint venture turnover on Private Finance Initiative (PFI) projects which have become operational.

Operating profit, margins and return on capital

Group operating profit of £42.6m, including share of joint ventures and after deducting goodwill amortisation, was 25.7% ahead of last year's £33.9m.

Construction & Services achieved a 20.9% increase in operating profit to £15.6m (2003: £12.9m) and a 31.9% increase to £18.2m (2003: £13.8m) after adding back goodwill amortisation. The 1.3% operating margin (after goodwill) compares with 1.0% achieved in 2003 and is well on the way to our short-term target of 1.5%. After adding back goodwill amortisation the margin is at our targeted level of 1.5%. A strong performance has been achieved in Kier Regional, even after taking into account a further, modest loss incurred by the social housing business, Kier Partnership Homes. In Kier National, the overseas contribution has returned to more sustainable levels at £1.9m (2003: £7.8m), reflecting a healthy 4.1% margin.

Within Homes operating margins rose to 14.7% (2003: 14.6%) with an increase in the number of lower margin, social housing units, offsetting an increase in the margin arising from private units. Return on capital rose to 16.7% (2003: 16.0%), reflecting a better capital turn.

In Property the operating profit of £8.1m includes £1.5m of profit on an intra-Group sale of land to Kier Residential. This profit has been eliminated on consolidation and will be recognised as the land is developed based on unit sales. £3.7m arose from joint ventures and £4.4m from wholly owned subsidiaries, (before elimination of intra-Group profits).

Infrastructure Investment made an operating loss of £1.9m (2003: £0.5m) after charging bidding and overhead costs of £1.9m (2003: £1.6m) and costs relating to refinancing one of our projects of £1.5m.

Centre costs of £9.5m (2003: £8.6m) include net costs of bidding and promoting Support Services' outsourced building maintenance and PFI projects of £1.9m (2003: £1.5m) and a provision for the estimated costs of the Long-Term Incentive Plan of £2.0m (2003: £2.1m).

Taxation

The tax charge of £12.0m (2003: £9.5m) represents an effective tax rate of 29.5%, 1% greater than for 2003. The Group continues to benefit from trading losses it acquired, capital allowances and the benefit of substantial shareholder exemption on a capital gain. However, a combination of disallowable goodwill amortisation and permanent differences for taxation has resulted in the increase in the tax rate compared with last year.

Earnings per share and dividend

Undiluted basic earnings per share of 81.5p represent a 17.3% increase on 2003's unadjusted earnings per share of 69.5p and a 21.8% increase to 87.2p (2003: 71.6p) after adding back goodwill amortisation.

The proposed final dividend of 13.0p (2003: 11.2p) makes 19.0p (2003: 16.4p) for the year, an increase of 15.9%, the seventh year in succession that the dividend has increased by 15% or more. The dividend is covered 4.3 times by basic earnings per share.

Balance sheet and shareholders' funds

The balance sheet at 30 June 2004 includes goodwill of £18.6m (2003: £21.1m) relating to the acquisition of Partnerships First Limited and the outsourcing contract at Sheffield in 2003. This is being amortised over a period of 10 years, with £2.6m charged to profits in 2004 (2003: £0.9m).

Shareholders' funds have increased by £23.7m to £116.4m (2003: £92.7m) arising from retained profits of £21.8m, currency translation of £(0.4m), movements of the share scheme reserve and the proceeds of the issue of 658,082 new shares, of which 90,551 were issued in lieu of dividends, 540,003 were issued under the Sharesave Scheme and the remainder to satisfy options maturing under the Performance Related Option Schemes.

Cash flow, facilities and foreign currency exposure

Net cash outflow from operating activities was £3.7m (2003: inflow of £53.5m).

At 30 June 2004 net Group funds of £7.6m (2003: £62.0m) reflect further investment in Homes & Property; a reduction in the advance cash held at 30 June 2003 in respect of the sale of a property at Whitehall; a reduction in turnover in Kier National and an increased investment in fixed assets relating to the costs of starting up a new private mining opportunity in Scotland.

Since 30 June 2004 Kier Property has sold the headquarters building for the National Trust to investors in advance of construction, bringing in £18.2m to Group funds in July 2004. In August 2004 we refinanced one of our PFI projects, Hairmyres Hospital, which contributed £8.1m to Group funds, after sharing 30% of the total with the Lanarkshire Health Board. Consequently, net funds at 31 August 2004 increased by £34.0m to £41.6m.

Cash, net of debt, at 30 June 2004 includes £23.8m (2003: £25.1m) of cash which is not generally available for Group purposes, including that held by joint arrangements, overseas and by the captive insurance company. The liquid cash position is affected by seasonal, monthly and contract specific cycles. In order to accommodate these flows the Group maintains a range of bank facilities. These were renewed in January 2004 and increased by £30m to £80m, representing £12.5m of overdraft facilities and £67.5m of committed, revolving credit facilities all on an unsecured basis.

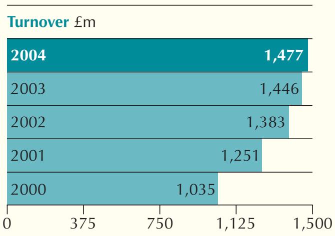
There are minor foreign currency risks arising from operations. The Group has a number of overseas branches and subsidiaries operating in several countries and currencies. Currency exposure to overseas assets is hedged through inter-company balances and borrowings, such that assets denominated in foreign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

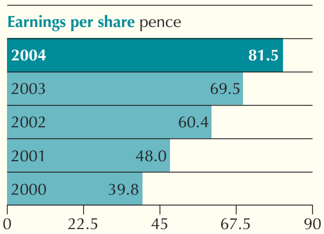
Pensions

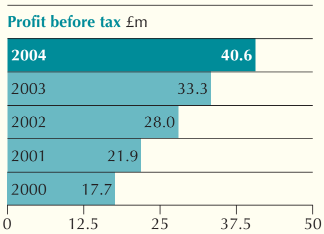
The financial statements reflect the transitional provisions of FRS 17 'Retirement Benefits'. The pension charge has been calculated in accordance with SSAP 24 and, as in previous years, it corresponds to the contributions paid by the Group during the year.

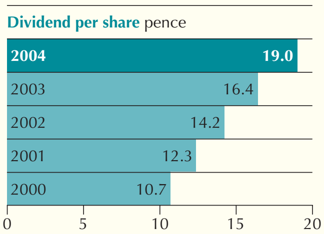
Under FRS 17 calculations there is a net deficit in the Kier Group Pension Scheme of £67.2m (2003: £79.7m). The improvement over the prior year represents an 11% increase in the value of scheme assets, and a 4% increase in liabilities caused by an upward drift in yields offset by increases in assumed salary and price inflation.

The Group continues to review its strategy for providing pension benefit to all of its employees and recent measures to improve the funding profile have included closing the final salary section of the Kier Group Pension Scheme to new members, increases in pension contributions (employers and employees) and changes to early retirement terms. A new investment strategy









has been adopted during the year which, it is hoped, will provide improved returns. An analysis of anticipated contributions, income receipts and benefits indicates that the scheme is likely to experience positive cash flows for eight years.

The Group also participates in another defined benefit scheme on behalf of its employees in Kier Sheffield LLP. At 30 June 2004 this scheme showed a surplus, after deferred tax, of £6.4m (2003: £5.1m).

International Financial Reporting Standards (IFRS)

European Union listed companies are required to prepare their consolidated financial statements in accordance with IFRS and International Accounting Standards (IAS) for accounting periods beginning on or after 1 January 2005. Accordingly the Group will be required to comply with IFRS for the financial year ending 30 June 2006.

We have established a working party to consider ongoing developments arising from the International Accounting Standards Board and have been considering the impact that new IFRSs will have on Group results compared with UK GAAP. Based on work performed to date and current International Standards, the significant differences that have been identified so far are:

Leases

IAS 17 establishes a new methodology to determine whether leases are to be treated as operating finance leases, particularly leases over land and buildings which must be analysed into their constituent parts and assessed separately. A review of the Group's portfolio of leases is being undertaken to determine whether the current operating lease treatment remains appropriate under IAS 17.

Goodwill

IFRS 3 requires that on acquisition of new businesses after March 2004, a value is attributed specifically to all separately identifiable intangible assets. Such amounts are then to be amortised over periods not exceeding 20 years. The remaining difference between consideration paid and fair value of net assets is attributed to goodwill. Goodwill is required to be held at cost and is not to be amortised, instead it is subjected to annual impairment tests. Any existing goodwill at 30 June 2005 will be carried at the amortised amount and will be subject to impairment tests.

Pensions

IAS 19 is similar to FRS 17 under UK GAAP although IAS 19 permits the deferral of actuarial gains and losses in certain circumstances which is not permitted under FRS 17. Pension fund surpluses and deficits will be included within the Group results rather than disclosed by way of a note as is the case under the current FRS 17 transitional arrangements.

More work is scheduled by the IASB that may have further impact on the presentation of both the balance sheet and profit and loss account.

Right
Allison Homes' 'The Nightingales' development in Sutton Bridge, has been awarded a Kier Group health & safety flag.

These are presented to Kier sites demonstrating outstanding health & safety standards following random visits by Kier safety officers.

Kier Engineering Services (KES)
KES, the Group's in-house engineering design department is dedicated to supporting Kier companies and joint ventures. It is led by some of the longest-serving, experienced and most highly qualified engineers in the Group.

Much of the department's workload involves the rapid turn-round of the temporary works schemes essential for the safe and efficient progress of construction on site. Typical examples last year include the façade retention of Kier London's Eastcheap project and excavation support studies for Kier Build's Bristol Harbourside development, as well as a continuing heavy involvement in Kier Construction's CTRL contracts.

Permanent works are also designed. The new doctors' surgery in St. Neots for Kier Eastern is a notable case where, in addition to the usual role of structural engineer, the department has undertaken all the architectural detailing.

In the increasingly co-operative environment of the construction industry there is plenty of scope for value engineering by an in-house design department working in close liaison with the construction divisions. An example is the waste disposal plant being built by Kier Construction alongside the Thames at Frog Island. As a result of early involvement before the consultant's design was finalised, KES has been able to instigate a number of simplifying changes, bringing savings to both the client and Kier Group.

Another example in which an in-house design resulted in significant savings was River Nith Railway Bridge, part of the infrastructure built this year for Kier Construction's opencast mine at Greenburn. The old railway line crossed a dilapidated wooden bridge which was used in the new scheme as temporary works for pile driving and shutter support during the construction of a stronger reinforced concrete bridge.

KES also offers land surveying services and materials and earthworks advice to Group companies. Senior staff lead training courses in concrete technology and ground engineering as well as guide Kier graduates through their design training in the department towards professional qualifications.

Health & Safety
During the year, the management teams have focused on continuous improvement of all aspects of health & safety throughout the business. As part of the overall strategy to raise standards and improve communication within the supply chain, key areas of concern to both the industry and Kier have been targeted.

A core element of the Kier health & safety strategy is the 'Don't Walk By' campaign. The campaign message is broadcast widely and includes proactive and reactive safety tours and audits, text messages, van stickers and emails. This wide communication of the campaign is gathering momentum and all members of the supply chain are now increasingly 'thinking' health & safety before acting.

The health & safety training programme has been reviewed. A new suite of training courses has been developed to include a Safe-Start course for all new Kier staff, inducting them into the Kier Group health & safety delivery requirements at every level. This introduction to health & safety in Kier will help ensure we get it right first time. All Kier Group directors are nominated to attend a one-day Institution of Occupational Safety & Health directing health & safety course at the Group's new purpose-built health & safety training centre at Chawston in Bedfordshire. This new centre is the venue for the majority of Kier Group health & safety training, in particular the five-day health & safety management course, attended by all construction staff. Also included in the suite of health & safety training modules are specialist issues such as construction design & management regulations, temporary works and lifting operations.

The overall commitment and enthusiasm from the main Board of Kier Group through its management teams ensure the delivery of high standards of health & safety and has achieved an Accident Incidence Rate (AIR) of 588 per 100,000 workers for this period, measured against a Health & Safety Executive benchmark of 1,172 for the construction sector. The overall AIR has shown a 21% reduction since the last annual reporting period and the Group is justly proud of this achievement.

Below
Kier Engineering Services helped to make savings by using the dilapidated wooden bridge, of the old railway line, as temporary works for pile driving and shutter support during the construction of a stronger reinforced concrete bridge.

Below
Caxton Islington recently held its fourth annual fun day which attracted a record 3,000 visitors from the local community.

Below
Kier has over 150 craft apprentices in construction skills.

Open communication

Kier Group companies have been recognised by RoSPA and the British Safety Council and this year were awarded 14 gold, four silver and one merit RoSPA awards and 21 BSC awards.

Kier Group's health & safety strategy is to continue to raise supply chain awareness using the 'Don't Walk By' campaign and to continue to drive down accident and incident rates through good health & safety management communication.

Training and People Development

The Kier Group has grown its reputation as an employer of choice, due to its ability to attract, develop and retain top quality people. This is supported by progressive human resource policies and robust and clear succession plans. Kier firmly believes that a policy of attracting new people into the construction industry and developing people from within the Group will bring long-term continued success.

Kier has developed a structured career development path involving training & development programmes from trainee to director level. These programmes are seen as a key constituent to develop a customer focused, highly professional, safe workforce, committed to achieving excellent results and continual improvement. Kier is committed to its equal opportunities policy that encourages job applications from all sectors of the community. This is demonstrated by the diversity of the people recruited.

At the introductory level of its career development programme, Kier has recruited its target of 50 new graduates and 50 students to start their professional careers with Kier. Kier offers an enviable graduate scheme with elements of technical and managerial training that help motivate people in the Group to achieve their career goals, and to attract high levels of new recruits. The Group continues to work with schools, colleges, universities and careers advisors to promote the construction industry as a career choice and has over 120 people currently studying for technical qualifications on various training schemes, having joined the Group as school leavers. Kier also has over 150 craft apprentices in construction skills including 21 in the Residential business. This balanced approach to recruiting and developing new talent will be enhanced further over the next year.

The Group actively encourages all employees to achieve full professional membership in their relevant discipline. To support this, the Group has a well established graduate development programme enabling graduates to achieve professional membership. During 2004, Kier introduced a supervisors programme for front-line managers from craft and non-academic backgrounds to achieve their professional standards. Kier has become an accredited NVQ centre, and is recognised by the joint awarding body ICE/Edexel/CIOB as a model of best practice for the delivery of NVQs in construction management. The core management development programmes integrate with these professional development schemes and specific business and technical skills training within the Group.

The Group has introduced a new safety training system during the past year, to support the continual improvement of its excellent safety record. Appropriate core safety training is available to all levels of employees to the best industry and national standards, with specific safety skills also available for different job roles.

Kier has established an executive leadership programme to provide structured development for senior managers and directors. Aligned to Kier's strategy, this aims to further develop leadership competencies within the Group's talent bank of senior management. It also supports the sharing of leadership best practice across the Group.

Evidence of the Group's reputation as an employer was reinforced in March 2004 when, for the second year in succession, it featured in the list of the Financial Times' 'Top 50 Best Workplaces' in 25th position (2003: 45th). Over half of the Group companies are now accredited as, or working towards, 'Investors in People'. The Group consistently exceeds best practice guidelines for training & development expenditure per head and training days per person. It aims to further improve its deserved reputation as a leading employer and developer of people in the construction industry over the coming year.

-21%

Reduction in accident incident rate (AIR) since last reporting period

Sustainability
The environmental and sustainability steering group, under the leadership of the chief executive, has focused increasingly on sustainability issues and on continuing to maintain and improve the Group's environmental performance. Sustainability is at the heart of what Kier Group does as a business, in an industry whose daily actions can have a major impact upon the world in which we live. The professionalism with which the project teams operate forms a sound basis for future success and to positively impact on the environment and on society.

Kier Group's record of achievement in sustainability is wide and varied and includes:

- The funding and construction of a railway link in Scotland to facilitate the transportation of 3m tonnes of coal to local power stations. The rail link will remove the requirement for 100,000 vehicle movements from roads and will benefit local communities and the environment. Coupled with this its construction was carried out in harmony with the local ecology so as not to harm bird and aquatic life along the route of the rail link.

- Kier Group has taken on chairmanship of a task group established to develop and implement a sustainability strategy for construction in the East of England on behalf of the East of England Regional Assembly.

- Caxton Islington, in partnership with the London Borough of Islington and the Construction Industry Training Board, is continuing with the 'First Start Scheme' which provides an introduction to employment within the construction industry for young people. This project won a workplace development award in 2003.

- Eight businesses within the Group have now been accredited with Investor in People status, increased from four last year, indicating the strength of commitment to people development. A further four have committed to achieving the standard.

- A learning and development centre has been established which can now offer managerial NVQs at levels 3, 4 and 5 – accredited by the joint awarding body ICE/Edexel/CIOB. This is the first such centre in the UK and will provide an excellent opportunity to further develop management teams.

- Participation in Considerate Constructors/Contractor Schemes, where appropriate, has brought recognition for several of our businesses and continuing involvement in these and similar initiatives will be actively encouraged.

Having set targets a year ago for this year's performance the Group is able to report as follows:

	Actual 02/03	Actual 03/04	Target 04/05
Waste as % of construction turnover	0.38%	**0.30%**	0.28%
Energy use £/m^2	9.35	**9.20**	9.00
CO_2 emissions (t)	8,340	**6,862**	6,500
Environmental training days	201	**421**	500
Infringements	7	**2**	0

Board members

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1 Colin Busby* Aged 60, led the employee buy-out in 1992 and was both chairman and chief executive until May 2003 when his role became exclusively that of chairman. In June 2004 he became non-executive chairman. His service with the Group began in 1969 and he held senior appointments in the international and UK construction divisions between 1978 and 1992. He is chairman of the Nomination Committee and in June 2003 was appointed president of the Chartered Institute of Building for a 12-month term.

2 John Dodds Aged 59, was appointed chief executive in May 2003 and has been with the Group since 1970. He has spent time overseas working particularly in Africa and Hong Kong, returning to the UK to lead the civil engineering business. Following the buy-out he was responsible for major projects, mining and international operations and was chairman of Kier Project Investment. He retains the position of director with overall responsibility for health & safety and environmental matters.

3 Deena Mattar Aged 39, was appointed to the Board as an executive director in September 2001. She joined Kier in 1998 from KPMG where she developed an in-depth knowledge of construction. She held the role of finance director of Kier National, the Group's major building and civil engineering projects arm, until July 2001 and was appointed Group finance director in November 2001. She is also responsible for the Group's infrastructure investment activities.

4 Robert Gregory Aged 50, has extensive knowledge of working within Kier and during the 1980s spent a number of years on financial assignments in the UK and in the UAE. He joined Kier Residential in January 1994 as finance director of Twigden Homes and was a key player in the Group's housebuilding acquisitions and the start-up of housing activities in Scotland. He was promoted to finance director of Kier Residential in 1998 and to managing director of Allison Homes following its acquisition in September 2001. He joined the Board in July 2003 as director responsible for the Group's Residential division.


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5 Dick Side Aged 57, joined Wallis in 1983 as managing director of its Construction division. His 20-year career with the Group has been spent in regional contracting and he was appointed managing director of Kier Regional in 2001. In January 2003 he became main Board director responsible for the Group's Regional construction division.

6 Dick Simkin Aged 56, joined the Group in 1989 and has made a significant contribution to strengthening Kier's presence in the property sector. He played a key part in the Group's acquisition of Laing Property and was appointed to the Board in January 2003 as director responsible for the Group's Property division.

7 Peter Berry* Aged 60, is chairman of The Crown Agents for Oversea Governments and Administrations Limited. He is also chairman of Martin Currie Portfolio Investment Trust plc, a non-executive director of Henderson TR Pacific Investment Trust plc and an advisor to the Corporation of London on international and economic development. He was appointed to the Board in 1997 and is senior independent director, chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

8 Peter Warry* Aged 55, is chairman of Victrex plc and BSS Group plc. Previously he was an executive director of British Energy plc and chief executive of its English generating company. He was appointed to the Board in 1998 and is a member of the Audit, Nomination and Remuneration Committees. He will succeed Colin Busby as non-executive chairman following the Annual General Meeting in 2004.

9 Simon Leathes* Aged 56, is vice chairman for support services at Barclays Capital, the investment banking division of Barclays plc. He previously held senior appointments at Lend Lease Corporation, Hambros plc and SG Warburg Group plc. He was appointed to the Board in March 2001 and is chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

*Non executive

Financial statements

Directors' report

The directors present their annual report and audited financial statements for the year ended 30 June 2004.

Principal Activities and Business Review
The Group's principal activities are construction, support services, residential and commercial development and infrastructure project investment.

A review of the Group's business and progress is given within the Chairman's Statement, Chief Executive's Review, Financial Review and Operating Review on pages 2 to 39.

Results and Dividends
The Group profit for the year after taxation was £28.6m (2003: £23.8m).

An interim dividend of 6.0p per share (2003: 5.2p) amounting to £2.2m (2003: £1.8m) was paid on 20 May 2004. The directors propose a final dividend of 13.0p per share (2003: 11.2p per share) amounting to £4.6m (2003: £3.8m) payable on 7 December 2004 to shareholders on the Register of Members at the close of business on 1 October 2004.

Share Capital
Details of shares allotted by the Company during the year appear in note 19 to the financial statements.

Directors
The directors of the Company during the year are shown on pages 40 and 41. The chairman Mr C R W Busby, became a non-executive director on 14 June 2004.

At the forthcoming Annual General Meeting resolutions will be proposed for the re-election of Mr P F Berry, Mr P T Warry and Miss D E Mattar. At that date, the unexpired term of the contract of employment with the Company of Miss Mattar will be twelve months. Neither Mr Berry nor Mr Warry has a service contract.

Details of directors' interests are disclosed in the Directors' Remuneration Report on page 50.

Substantial Shareholdings
At 15 September 2004 the Company had been notified of the following interests in the Ordinary Share Capital of the Company:

Standard Life Investments Limited	4.7%
Legal & General plc	4.3%

Employees
The companies in the Group are equal opportunity employers. The Group provides relevant information on matters of concern to employees through newsletters and formal and informal meetings with local management. The Group encourages and assists, whenever practicable, the recruitment, training, and career development of disabled people and the retention of those who become disabled during the course of their employment and who can be employed in a safe working environment. The Company operates a sharesave scheme for all eligible employees and makes available a dealing service to enable employees to buy and sell its shares with a minimum of formality and on attractive commission terms. The Group also operates an AESOP scheme for all employees.

Combined Code
A statement on corporate governance is set out on pages 44 to 46.

Going Concern Basis
After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Donations
Group donations to charity in the United Kingdom were £41,000 (2003: £41,000). No political donations were made (2003: nil).

Policy on Payment of Creditors
The Group agrees payments with its suppliers and subcontractors on an individual contract basis rather than following a standard code. The policy is to abide by these agreed terms whenever it is satisfied that the suppliers or subcontractors have provided the goods or services in accordance with the contract terms and conditions. The aggregate amount owed to trade creditors by the Company at the end of the year was nil.

Subsidiary trading companies within the Group, acting in accordance with the above policy, exhibit creditor days averaging 39 (2003: 42) in respect of suppliers of invoiced goods and services and 26 (2003: 25) in respect of certified amounts due to subcontractors. These figures exclude amounts not currently due for payment but included within trade creditors.

Auditors
A resolution for the reappointment of the auditors, KPMG Audit Plc, will be proposed at the Annual General Meeting.

D E Mattar
Secretary

15 September 2004
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Corporate governance statement

The Code
The Board recognises the importance of high standards of corporate conduct and is committed to managing the Group's operations in accordance with the best principles of corporate governance as contained within Section 1 of the Combined Code issued by the Committee on Corporate Governance in June 1998 and has complied with the Code throughout the year.

Following the issue in January 2003 of the reports by Derek Higgs on the 'Review of the Role and Effectiveness of Non-Executive directors' and by Sir Robert Smith on 'Audit Committees – Combined Code Guidance', a new Combined Code was issued in July 2003 which will apply for reporting periods commencing on or after 1 November 2003. Consequently the first year for which the Company is required to comply is the year ending 30 June 2005. However, the Board has carried out a review of the impact of the new Combined Code on the way the Board and Committees carry out their responsibilities and confirms that at the date of this report it would have been in a position to comply with the provisions of the new Code except for the requirement to carry out a formal evaluation of the Board, Remuneration Committee and the directors.

Board of Directors
The Board of Kier Group plc currently comprises five executive and four non-executive directors, three of whom are independent, and operates both formally through the Board and Board Committees and informally through regular contact between directors as required.

The chairman of the Board is Mr C R W Busby and the chief executive is Mr J Dodds. The senior independent director nominated by the Board for the purposes of Provision A.2.1 of the Combined Code is Mr P F Berry. Details of the directors are given on pages 40 and 41. All the directors served throughout the year. Mr C R W Busby became a non-executive director on 14 June 2004. The Board has a strong and independent non-executive element, including a recognised senior member, and a well established and experienced executive element. This, coupled with clear Board procedures for decision making, ensures that there is no undue concentration of power in any one individual.

The Board met 11 times during the year and has a formal schedule of matters specifically reserved to it for decision. A table showing attendance at these meetings and at meetings of the Audit Committee, the Remuneration Committee and Nomination Committee is set out on page 45.

The Board has responsibility for the strategic and financial policies of the Group including monitoring and reviewing business performance. The Board is provided with regular and timely information on the financial and operational performance of businesses within the Group. The Board's authority and delegation of its authority are set out in Group standing orders.

All directors have access to the advice and services of the company secretary and the directors are able to seek independent professional advice, if necessary at the Company's expense. Training is available for new directors and subsequently as necessary. All directors are subject to election by shareholders at the first Annual General Meeting following their appointment, and to re-election thereafter at intervals of no more than three years. Executive directors are required to seek approval from the Board before accepting any external non-executive positions. None of the executive directors holds a non-executive directorship.

Audit Committee
The Audit Committee comprises the three independent non-executive directors under the chairmanship of Mr S W Leathes, a chartered accountant. The Committee met four times during the year in September, December, March and June prior to Board meetings. The meetings were also attended by the finance director and the head of internal audit. The KPMG Audit Plc (KPMG) audit engagement director attended the September, December and March meetings. The executive directors are also invited to attend the meetings. The members of the Committee also had two separate meetings with the KPMG audit engagement director to discuss the year-end findings and the half-year results prior to the September and March Audit Committee meetings.

The Committee has clearly defined terms of reference which outline its objectives and responsibilities relating to financial reporting, internal controls, risk management and the application of appropriate accounting policies and procedures. Specific responsibilities include reviewing and recommending for approval the annual and interim financial statements, reviewing the Group's accounting policies, reviewing the effectiveness of internal controls and risk management and reviewing the scope and results of the external audit.

The Audit Committee also has responsibility for overseeing the Group internal audit function including approval of the annual risk-based audit plan and monitoring the work, recommendations and effectiveness of the function. The head of internal audit reports directly to the chairman of the Audit Committee.

At each of its meetings the Committee received and reviewed a report from the head of internal audit which highlighted the status of the Group risk management processes and audit activity against the approved plan and the findings from internal audits. The chairman of the Audit Committee also meets regularly with the head of internal audit and the Committee has met with the head of internal audit without the presence of management. The Committee carried out a review of the effectiveness of the internal audit function at the June meeting.

The Committee is responsible for monitoring the independence and objectivity of KPMG, the external auditor, and agreeing the level of remuneration and extent of non-audit services. The Committee received a presentation from KPMG on its audit strategy and scope of work which it agreed and also discussed the firm's professional ethical standards. The Committee reviewed the performance of KPMG and the level of non-audit fees paid to KPMG during the year which are set out in note 2 on page 63. The provision of non-audit services, other than tax compliance and routine taxation advice must be referred to and agreed by the Committee over a pre-determined cost threshold and any work costed below that threshold must be pre-approved by the Group finance director. No consultancy related work has been carried out by the auditors during the year. The Committee was satisfied, following its review, that KPMG's objectivity and independence had not been impaired. The Committee agreed and approved the audit fee at the June meeting following discussions between divisional management and the divisional KPMG audit teams. The KPMG audit engagement director is rotating off the audit at the end of the audit for the year to 30 June 2004 in accordance with regulatory requirements.

The Committee's terms of reference are reviewed annually and have been updated in line with the guidance and recommendations of the revised Combined Code. The terms of reference are available on request and on the Company's website.

Remuneration Committee
The Remuneration Committee comprises the three independent non-executive directors under the chairmanship of Mr P F Berry. Information about the workings of this Committee is contained in the Directors' Remuneration Report on pages 47 to 52. The Committee makes recommendations to the Board on the Company's framework of executive remuneration and the chairman's remuneration and determines, on its behalf, specific remuneration packages for each of the executive directors. In doing so it takes the advice of independent external consultants. The terms of reference are available on the Company's website.

Nomination Committee
The Nomination Committee comprises the chairman and the independent non-executive directors. It is responsible for monitoring the composition and balance of the Board and making recommendations to the Board on new Board appointments. The Committee met once during the year. The terms of reference are available on the Company's website.

Board and Committee Meetings
Details of the number of meetings of, and attendances at, the Board and the Audit, Remuneration and Nomination Committees are set out in the table below.

Name of Director	Board – (11)	Audit – (4)	Remuneration – (3)	Nomination – (1)
C R W Busby	11	–	–	1
J Dodds	11	–	–	–
R W Gregory	11	–	–	–
D E Mattar	11	–	–	–
R W Side	11	–	–	–
R W Simkin	11	–	–	–
P F Berry	11	4	3	1
S W Leathes	11	4	3	1
P T Warry	10	4	3	1

Internal Control
The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal control. This extends the directors' review to cover all controls, including operational, compliance and risk management, as well as financial controls. The directors are satisfied that procedures are in place to ensure that the Group complies with Turnbull Committee guidance published by the Institute of Chartered Accountants in England and Wales, and have been applied during the year.

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

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

- an established management structure operating throughout the Group with clearly defined levels of responsibility and delegation of authorities;
- clearly defined operating guidelines and procedures with authorisation limits set at appropriate levels. These are set out in the Group and divisional standing orders;
- a comprehensive budgeting and forecasting system which is regularly reviewed and updated;
- a formal quarterly review of each division's year-end forecast, business performance, risk and internal control matters is carried out by the directors of each division with the chief executive and finance director in attendance;
- monthly management reporting including regular comparison of actual results against latest forecasts;
- established policies and procedures governing the Group's investment in land, property and other significant assets, including acquisitions and disposals. These include detailed appraisals, appropriate authorisation levels and Board approval depending on value or perceived exposure;
- investment decisions, including Private Finance Initiative projects and tenders for contracts are subject to approval by the Board, the chief executive and finance director or divisional directors depending on the value and nature of the investment or contract. Individual tender and project review procedures are in place prior to bidding and before contract award;
- internal audits are carried out to assess the adequacy and effectiveness of internal controls. The scope of the internal audit work is planned to cover the key risks faced by the business and supplemented by cyclical reviews of the core financial process. Internal audit findings are reported to the Audit Committee and the executive directors on a regular basis;
- risk registers are in place for each business unit which highlight the key risks facing that business together with an assessment of the effectiveness of controls to mitigate those risks. The risk registers are updated regularly and at 31 March;
- an annual process of risk and control self assessment is used in the Group whereby all operating companies are required to review and confirm that appropriate internal controls are in place and operating effectively across the key risk areas identified in individual company risk registers. This assessment was carried out on 31 March 2004 and the findings reviewed by the Audit Committee; and
- regular monitoring, review and reporting of health, safety and environmental matters.

The Board receives regular reports from all operating units to monitor their performance and all directors are properly briefed on issues arising at Board meetings.

During the course of the year members of the Board visit all companies and monitor the control framework of each business. The Audit Committee reviews the appropriateness and effectiveness of internal controls.

Relations with Shareholders

The Board uses the Annual General Meeting to communicate with shareholders and encourages their attendance and participation. The chairmen of the Audit Committee and the Remuneration Committee are available to answer questions from shareholders. The Group also maintains a regular dialogue with institutional investors to assist in the understanding of the Group's objectives and the Company has a programme of regular communication with investors, analysts and brokers. Presentations are made to investors, analysts and the press at the time of the announcement of the final and half year results and there are regular meetings with analysts and investors which are arranged through the Company's brokers so that the investment community can be kept informed. The Board is provided with independent feedback from analysts and institutional shareholders periodically.

The Kier website (www.kier.co.uk) is also maintained to aid communication with investors, employees, customers, suppliers and the general public.

Directors' remuneration report

The Remuneration Committee
The Remuneration Committee is a Board Committee consisting entirely of independent non-executive directors. The following directors were members of the Committee for the year ended 30 June 2004:

P F Berry (Chairman)
S W Leathes
P T Warry

The secretary of the Committee is Mrs A Sale, the head of personnel.

The Committee meets when necessary, but not less than once a year. The Committee consults the Group chairman and chief executive concerning its proposals (except in relation to their own remuneration) and has access to and, from time to time, takes external professional advice. In respect of the year ended 30 June 2004 the Committee appointed New Bridge Street Consultants LLP, its independent remuneration advisors. New Bridge Street Consultants LLP provide no other service to the Company. Where necessary, or appropriate, the Committee instigates consultation with major institutional shareholders on remuneration matters.

Remuneration Policy
The Committee makes recommendations to the Board on executive remuneration policy for adoption by the Board and determines specific remuneration packages for each of the executive directors on behalf of the Board. Remuneration and benefits are set at market levels comparable with companies of similar size and scope of activity in order to be able to attract, retain and motivate high calibre individuals. The Committee's policy is to maintain an appropriate balance between fixed elements of remuneration (basic salary, benefits in kind and pension) and performance-related elements (annual bonus and long-term incentives) and to place much greater emphasis on rewarding executives by reference to the Group's long-term performance rather than its short-term results. The Committee and Board encourage directors and staff at all levels to acquire shares in the Company and to hold them for the longer term. This sense of ownership is an important element of Kier's culture and of its focus on long-term performance. As far as possible the Group prefers to promote individuals from within. The remuneration received by each of the directors, together with details of share interests and pension benefits are set out on pages 49 to 51.

Executive directors' remuneration consists of a basic salary together with an annual bonus, benefits in kind, awards under a Long-Term Incentive Plan (LTIP), and membership of a pension scheme. The remuneration components are set out below:

Basic salary
Salaries for executive directors take account of external market data, the individual's responsibilities, experience and performance. Salaries are reviewed annually.

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

Annual bonus arrangements
A bonus is paid to all executive directors at a percentage of annualised basic salary (not exceeding 20% for the years to 30 June 2004 and 30 June 2005) if Group pre-tax profit attains a target pre-set each year. These targets are agreed by the Committee; they are not published externally for reasons of commercial confidentiality.

Retirement benefits
Executive directors participate in the final salary section of the Kier Group Pension Scheme. In cases where the executive directors' pensionable pay is limited by the earnings cap provisions of the Finance Act 1989, the director is paid a salary supplement above the earnings cap to reflect the loss of pension coverage. This supplement is recorded in the directors' remuneration and is not taken into account in determining bonuses or any other form of remuneration. Only the base salary of directors is pensionable. Details of individual directors' pension arrangements are shown in a separate table on page 49.

Long-term incentives
The Kier Group 1999 LTIP was approved by shareholders on 27 November 1999 and five conditional awards have been made since then, the latest on 1 October 2003 (the 2004 award). These awards are subject to the Group achieving the following adjusted earnings per share growth targets:

- the directors will receive 100% of the award if earnings per share increase by at least 25% per annum compound (the maximum target) over the relevant three year period;
- no awards will vest unless earnings per share over the same period have increased by at least 7.5% per annum compound (the base target) at which point 25% of the award will vest; and
- the proportion of the awards which will vest for performance between the base target and the maximum target will be calculated on a straight line basis.

Directors' remuneration report
continued

These targets were selected by the Committee to ensure that the Group would have to attain a substantial improvement in underlying financial performance before the awards could vest. The attainment of the performance targets is verified by the Remuneration Committee and reviewed by the Company's auditors.

26.5% of executive directors' remuneration for the year to 30 June 2004 was represented by the award under the LTIP.

Proposals to alter the earnings per share growth targets and the individual limit will be put to shareholders at the Company's Annual General Meeting. The proposed targets are in line with usual market practice in companies operating on earnings per share performance conditions in that the targets will be expressed relative to inflation. 25% of the award would vest for 5% per annum growth in excess of inflation and the full award would vest for 20% per annum growth in excess of inflation. Further details will be circulated to shareholders in the notice of the Annual General Meeting.

The Remuneration Committee has set a policy whereby it encourages executive directors to build up a shareholding in the Company equal to at least one times salary over a period of up to five years.

Prior to the introduction of the LTIP, the Company granted Performance Related Options to the executive directors. It is not the Committee's current intention to make any further grants of Options.

Service contracts

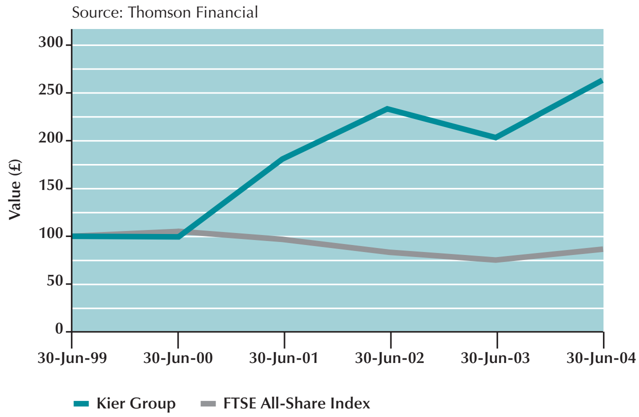
The Company has service agreements with its executive directors dated 14 November 1996 for Mr J Dodds, 1 October 2001 for Miss D E Mattar, 27 June 2003 for Mr R W Side, 30 June 2003 for Mr R W Simkin and 12 August 2003 for Mr R W Gregory. The notice period is one year for each of the executive directors. In the event of early termination of their service agreements, the executive directors are entitled to compensation of up to one year's salary.

Non-executive Directors

The remuneration of the non-executive directors is determined by the Board and reflects their anticipated time commitment to fulfil their duties. Non-executive directors do not receive bonuses, long-term incentive awards, pension provision or compensation on termination of their appointment. Non-executive directors do not have service agreements.

Total Shareholder Return

The following graph charts total cumulative shareholder return of the Company over the last five financial years. The index selected was the FTSE All Share Index as the Company has been a constituent throughout the period.



The graph shows the value, by 30 June 2004, of £100 invested in Kier Group plc on 30 June 1999 compared with the value of £100 invested in the FTSE All Share Index. The other points plotted are the values at intervening financial year-ends.

Audited Information

Except for the disclosure on directors' interests the following information on pages 49 to 52 has been audited by the Company's auditors, KPMG Audit Plc.

Directors' Emoluments

The value of all emoluments receivable by each director in respect of the year ended 30 June 2004 was as follows:

	Salary & fees £000	Benefits £000	Bonus £000	Total **2004 £000**	Total 2003 £000
C R W Busby (to 14 June 2004)[1]	320	18	68	406	371
C R W Busby (from 14 June 2004)[1]	5	–	–	5	–
J Dodds	269	14	55	338	255
P F Berry	28	–	–	28	26
R W Gregory[2] (appointed 1 July 2003)	193	9	36	238	–
S W Leathes	28	–	–	28	26
D E Mattar[2]	233	19	42	294	249
R W Side (appointed 1 January 2003)	192	11	39	242	108
R W Simkin[2] (appointed 1 January 2003)	200	12	36	248	100
P T Warry	31	–	–	31	28
D Homer (retired 30 June 2003)	–	–	–	–	244
M P W Scarth (retired 7 May 2003)	–	–	–	–	219
	1,499	83	276	1,858	1,626

[1] Mr C R W Busby became a non-executive director on 14 June 2004 and his remuneration was adjusted accordingly.
[2] Salary includes a pension-related salary supplement explained in pensions section below. The supplement included above was £15,550 for Mr R W Gregory, £25,960 for Miss D E Mattar and £22,740 for Mr R W Simkin.

Directors' Pensions

Pension benefits earned by the directors during the year are disclosed below.

	Increase in accrued pension over the year £000	Increase in accrued pension over the year[1] £000	Transfer value of increase in accrued pension[2] £000	Accumulated total accrued pension at 30 June 2004 £000	Transfer value of accrued pension at 30 June 2003 £000	Increase in transfer value[2] £000	Transfer value of accrued pension at 30 June 2004 £000
C R W Busby	17	12	187	224	3,552	503	4,082
J Dodds	37	33	535	173	2,187	662	2,870
R W Gregory[4]	13	12	123	43	280	165	453
D E Mattar[4]	4	3	15	20	92	30	130
R W Side	18	15	216	98	1,186	333	1,534
R W Simkin[4]	5	4	38	50	585	109	701

[1] The increase in a member's accrued pension over the year shown above is the adjusted figure after allowing for inflation during the year.
[2] Transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less directors' contributions.
[3] Members of the Scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.
[4] As Mr R W Gregory, Miss D E Mattar and Mr R W Simkin joined the Company after 1 June 1989, their benefits from the Kier Group Pension Scheme are capped at an annual salary set in accordance with Inland Revenue requirements, currently £102,000. Included within the salary and fees of Mr R W Gregory, Miss D E Mattar and Mr R W Simkin in the emoluments table is an allowance representing 20% of salary in excess of the earnings cap.

Directors' Interests

The directors of the Company at 30 June 2004 had the following beneficial interest (including interests of dependent family members) in the Ordinary Shares of the Company:

	30 June 2004	1 July 2003
C R W Busby (chairman)	564,018	605,578
J Dodds (chief executive)	566,718	566,465
P F Berry (non-executive)	6,650	5,000
R W Gregory	17,242	15,766
S W Leathes (non-executive)	10,000	5,500
D E Mattar	34,149	29,179
R W Side	150,010	156,112
R W Simkin	265,990	262,209
P T Warry (non-executive)	7,403	7,212

Mr R W Side had a non-beneficial interest in 3,813 Ordinary Shares at 30 June 2004 (1 July 2003: nil).

In addition, the executive directors, as potential beneficiaries of the Kier Group 1999 Employee Benefit Trust, are deemed along with all other UK employees to have an interest in 267,414 (2003: 421,115) Ordinary Shares with a nominal value of £2,674 (2003: £4,211) representing 0.75% of the called up share capital of the Company, held by the Trust.

At 15 September 2004 the following directors had acquired beneficial interests in further Ordinary Shares: Mr C R W Busby, 54 shares; Mr J Dodds, 54 shares; Mr R W Gregory, 54 shares; Miss D E Mattar, 54 shares and Mr R W Side, 54 shares. There had been no changes in the interests of the other directors since 30 June 2004.

Directors' Share Options

The directors held the following Sharesave Scheme Options over the Ordinary Shares of the Company:

	Date of grant	Exercise price	1 July 2003	Exercised	Market price at date of exercise	Granted	30 June 2004
C R W Busby	16 May 2000	250p	651	651	500p	–	–
R W Gregory	16 May 2000	250p	651	651	516p	–	–
	29 Oct 2003	625p	–	–	–	590	590
D E Mattar	16 May 2000	250p	651	651	516p	–	–
	29 Oct 2003	625p	–	–	–	590	590
R W Side	16 May 2000	250p	651	651	516p	–	–

The Sharesave Scheme Options shown above are, as for all company employees under the scheme, not subject to a performance condition. The options granted during the year are exercisable from 1 January 2007.

The directors held the following Performance Related Options over the Ordinary Shares of the Company:

	Date of grant	Exercise price	30 June 2004	1 July 2003
R W Gregory	5 Dec 1996	170.0p	5,882	5,882
	14 Oct 1998	189.5p	2,000	2,000
D E Mattar	9 July 1998	250.0p	12,000	12,000
R W Side	5 Dec 1996	170.0p	17,647	17,647
R W Simkin	5 Dec 1996	170.0p	11,764	11,764
	14 Oct 1998	189.5p	2,000	2,000

No grants of Performance Related Options have been made since the introduction of the LTIP. No Performance Related Options held by directors were exercised, cancelled or lapsed during the year.

All Performance Related Options become exercisable in full after three years and lapse 10 years after the date they were granted, subject to the Company's total shareholder return over any three year period ending on the anniversary of the date of grant outperforming 75% of a peer group of 20 selected companies in the building and construction sector. Options do not become exercisable if the Company remains below the median position of the peer group. If the Company reaches but does not exceed the median position, 50% of the shares could be acquired on exercise of the options; between median and upper quartile the amounts exercisable are pro-rated. Based on total shareholder return over the three year periods ended July, October and December 2001 directors were entitled to acquire 100% of the shares over which they were granted options in 1996 and 1998.

The market price of the shares at 30 June 2004 was 634p and the range during the year was 500p to 701p. The aggregate gain on the exercise of the share options in the year was £6,822 (2003: £45,300).

LTIP

Outstanding awards made to executive directors of the Company under the LTIP are in the form of a deferred right to acquire, at no cost, the following maximum number of Ordinary Shares in the Company:

	2002 award	2003 award	2004 award	Cumulative Total 30 June 2004	Cumulative Total 30 June 2003
C R W Busby	33,519	–	–	33,519	84,729
J Dodds	22,346	23,930	21,912	68,188	80,726
R W Gregory	5,000	5,000	14,342	24,342	17,500
D E Mattar	18,994	22,148	16,733	57,875	48,642
R W Side	7,500	10,000	15,537	33,037	25,000
R W Simkin	5,000	5,000	14,342	24,342	17,500
Date of award	2 October 2001	1 October 2002	1 October 2003		
Share price	447.5p	451.5p	627.5p		
End of performance period	30 June 2004	30 June 2005	30 June 2006		

All awards granted to date under the LTIP are subject to the earnings per share performance targets outlined in the policy section of this report.

For the three year period ended 30 June 2003 earnings per share increased by 22.00% per annum compound. Accordingly the directors received 85.47% of the 2001 award (granted on 2 October 2000 when the share price was 268.5p) and were entitled to receive a combination of shares, at no cost, and cash (representing the amount required by each director to settle his tax liability). Shares vested during the year in executive directors of the Company under the 2001 award of the LTIP, together with the cash element received, were:

	2001 award No.	Shares lapsed No.	Shares vested No.	Received as shares No.	Market price £	Received as cash £	Total LTIP award £
C R W Busby	51,210	7,441	43,769	25,823	6.42	115,213	280,997
J Dodds	34,450	5,006	29,444	17,371	6.42	77,509	189,030
R W Gregory	7,500	1,090	6,410	3,781	6.42	16,878	41,152
D E Mattar	7,500	1,090	6,410	3,781	6.42	16,878	41,152
R W Side	7,500	1,090	6,410	3,781	6.42	16,878	41,152
R W Simkin	7,500	1,090	6,410	3,781	6.42	16,878	41,152
							634,635
						2003:	639,080

Directors' remuneration report
continued

For the three year period ended 30 June 2004 earnings per share increased by 19.30% per annum compound. Accordingly the directors will receive 73.07% of the 2002 award and will be entitled to receive the number of shares set out below, at no cost, on 30 September 2004 on which income tax and national insurance will be payable.

	Number of shares
C R W Busby	24,492
J Dodds	16,328
R W Gregory	3,654
D E Mattar	13,879
R W Side	5,480
R W Simkin	3,654

Approval of Report

As in previous years, Mr P F Berry, chairman of the Remuneration Committee, intends to attend the forthcoming Annual General Meeting and will be available to answer any questions shareholders may have concerning the Group's policy on directors' remuneration. The Directors' Remuneration Report will be submitted for approval by the Company at the forthcoming Annual General Meeting.

Signed on behalf of the Board

P F Berry
Chairman Remuneration Committee

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for the maintenance of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the independent auditors to the members of Kier Group plc

We have audited the financial statements on pages 55 to 77. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 53, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement on pages 44 to 46 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 June 2004 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

15 September 2004

Consolidated profit and loss account
for the year ended 30 June 2004

	Notes	2004 £m	2003 £m
Turnover – Continuing operations			
Group and share of joint ventures	2	**1,476.5**	1,445.6
Less share of joint ventures' turnover		**(32.4)**	(27.9)
Group turnover		**1,444.1**	1,417.7
Cost of sales		**(1,315.1)**	(1,307.2)
Gross profit		**129.0**	110.5
Administrative expenses		**(89.6)**	(77.4)
Group operating profit – Continuing operations		**39.4**	33.1
Share of operating profit – joint ventures		**3.2**	3.1
Share of operating loss – associates (Belan)		**–**	(2.3)
Operating profit: Group and share of joint ventures	2	**42.6**	33.9
Net interest (payable)/receivable – Group	3	**(0.2)**	0.6
Net interest payable – joint ventures		**(1.8)**	(1.2)
Profit on ordinary activities before taxation	2	**40.6**	33.3
Taxation on profit on ordinary activities	7	**(12.0)**	(9.5)
Profit for the year		**28.6**	23.8
Dividends	8	**(6.8)**	(5.6)
Retained profit for the Group and its share of joint ventures and associates		**21.8**	18.2
Earnings per Ordinary Share	9		
– basic		**81.5p**	69.5p
– diluted		**80.8p**	68.2p
Adjusted Earnings per Ordinary Share (excluding goodwill amortisation)	9		
– basic		**87.2p**	71.6p
– diluted		**86.4p**	70.2p

All items in the profit and loss account relate to operations continuing as at 30 June 2004.

Group operating profit – includes a charge of £2.6m for the amortisation of goodwill (2003: £0.9m).

Consolidated balance sheet
at 30 June 2004

	Notes	2004 £m	Restated 2003 £m
Fixed assets			
Intangible assets – goodwill	10	**18.6**	21.1
Tangible assets	11	**68.9**	53.0
Investments			
Investments in joint ventures			
Share of gross assets	12	**194.8**	159.1
Share of gross liabilities	12	**(190.7)**	(155.8)
Loans provided to joint ventures	12	**28.1**	27.4
Investment in joint ventures	12	**32.2**	30.7
		119.7	104.8
Current assets			
Stock	13	**328.6**	261.3
Debtors	14	**231.2**	205.2
Cash at bank and in hand	18	**41.4**	92.5
		601.2	559.0
Current liabilities			
Creditors – amounts falling due within one year	15	**(530.7)**	(495.3)
Net current assets		**70.5**	63.7
Total assets less current liabilities		**190.2**	168.5
Creditors – amounts falling due after more than one year	15	**(58.5)**	(62.7)
Provisions for liabilities and charges	16	**(15.3)**	(13.1)
Net assets	2	**116.4**	92.7
Capital and reserves			
Called up share capital	19	**0.4**	0.3
Share premium account	20	**17.1**	15.2
Capital redemption reserve	20	**2.7**	2.7
Share scheme reserve	20	**(0.4)**	(0.7)
Profit and loss account	20	**96.6**	75.2
Equity shareholders' funds		**116.4**	92.7

The balance sheet at 30 June 2003 has been restated in accordance with UITF 17 (Revised 2003) and UITF 38, which require investment in own shares and the provision for share based payments to be shown within shareholders' funds.

Company balance sheet
at 30 June 2004

	Notes	2004 £m	Restated 2003 £m
Fixed assets			
Investment in subsidiary undertakings	12	**55.3**	54.8
Current assets			
Debtors	14	**24.0**	21.9
Cash at bank and in hand		**75.8**	59.7
		99.8	81.6
Current liabilities			
Creditors – amounts falling due within one year	15	**(84.1)**	(67.5)
Net current assets		**15.7**	14.1
Total assets less current liabilities		**71.0**	68.9
Creditors – amounts falling due after more than one year	15	**(40.1)**	(41.4)
Net assets		**30.9**	27.5
Capital and reserves			
Called up share capital	19	**0.4**	0.3
Share premium account	20	**17.1**	15.2
Merger relief reserve	20	**1.2**	1.2
Capital redemption reserve	20	**2.7**	2.7
Share scheme reserve	20	**(0.8)**	(1.0)
Profit and loss account	20	**10.3**	9.1
Equity shareholders' funds		**30.9**	27.5

The balance sheet at 30 June 2003 has been restated in accordance with UITF 17 (Revised 2003) and UITF 38, which require investment in own shares and the provision for share based payments to be shown within shareholders' funds.

The financial statements were approved by the Board of directors on 15 September 2004 and were signed on its behalf by:

J Dodds
D E Mattar
Directors

Consolidated cash flow statement
for the year ended 30 June 2004

	Notes	**2004 £m**	2003 £m
Net cash (outflow)/inflow from operating activities	21 (a)	**(3.7)**	53.5
Dividends received from joint ventures		**0.3**	1.1
Returns on investments and servicing of finance			
Interest received		**1.4**	0.9
Interest paid		**(2.8)**	(1.3)
Interest from joint ventures		**2.0**	0.7
		0.6	0.3
Taxation paid		**(11.5)**	(7.7)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(21.5)**	(10.8)
Sale of tangible fixed assets		**2.8**	2.2
		(18.7)	(8.6)
Acquisitions and disposals	21 (c)	**(17.2)**	(19.0)
Equity dividends paid		**(5.5)**	(3.8)
Cash (outflow)/inflow before use of liquid resources and financing		**(55.7)**	15.8
Management of liquid resources			
Net decrease/(increase) in short-term bank deposits		**20.7**	(34.3)
Financing			
Issue of ordinary share capital		**1.4**	0.2
Purchase of own shares		**(0.1)**	(0.4)
Net proceeds of private placement of loan notes		**–**	30.1
		1.3	29.9
(Decrease)/increase in cash during the year		**(33.7)**	11.4
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash		**(33.7)**	11.4
(Decrease)/increase in liquid resources		**(20.7)**	34.3
Increase in long-term borrowings		**–**	(30.1)
Movement in net funds in the year		**(54.4)**	15.6
Cash, net of debt on 1 July		**62.0**	46.4
Cash, net of debt at 30 June	21 (b)	**7.6**	62.0

Consolidated statement of total recognised gains and losses
for the year ended 30 June 2004

	2004 £m	2003 £m
Group profit for the year excluding joint ventures	**27.0**	22.6
Share of joint ventures' profit for the year	**1.6**	1.2
Profit for the year	**28.6**	23.8
Currency translation	**(0.4)**	(0.8)
Total recognised gains and losses for the year	**28.2**	23.0

Reconciliation of movements in shareholders' funds
for the year ended 30 June 2004

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Profit for the year	**28.6**	23.8	**8.0**	5.6
Dividends	**(6.8)**	(5.6)	**(6.8)**	(5.6)
Retained profit for the year	**21.8**	18.2	**1.2**	–
Currency translation	**(0.4)**	(0.8)	**–**	–
Issue of shares	**2.0**	1.5	**2.0**	1.5
Movement in share scheme reserve	**0.3**	–	**0.2**	0.1
Net additions to shareholders' funds	**23.7**	18.9	**3.4**	1.6
Opening shareholders' funds as previously reported	**93.4**	74.5	**28.5**	27.0
Prior year adjustment (note 1)	**(0.7)**	(0.7)	**(1.0)**	(1.1)
Opening shareholders' funds as restated	**92.7**	73.8	**27.5**	25.9
Closing shareholders' funds	**116.4**	92.7	**30.9**	27.5

Notes to the financial statements

1 Accounting policies

Convention
The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements. The Group has followed the transitional arrangements of FRS 17 'Retirement Benefits' in these financial statements.

The Group has adopted UITF 17 (Revised 2003) and UITF 38 which require investment in own shares and the provision for share based payments to be shown within shareholders' funds. This has resulted in a restatement of the Group balance sheet at 30 June 2003 through a transfer of £1.5m from fixed assets, and £0.8m from creditors resulting in a net restatement of £0.7m to shareholders' funds. There is no material difference to the charge to the profit and loss account under the new and old basis. The Group has taken advantage of the exemption in UITF 17 (Revised 2003) in relation to Inland Revenue approved SAYE option schemes.

Consolidation
The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings. The results of subsidiary undertakings acquired or disposed of during the year are included from or up to the date of acquisition or disposal. On the acquisition of a subsidiary undertaking fair values are attributed to the net assets acquired. Purchased goodwill arising on acquisition is capitalised and amortised over its useful economic life in accordance with FRS 10 'Goodwill and Intangible Assets'. Purchased goodwill arising on acquisitions before the implementation of FRS 10 was written off to reserves in the year of acquisition. On subsequent disposal any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

As permitted by section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the Company has not been presented.

Turnover
Turnover arises from increases in valuations on contracts, the sale of houses, land, commercial property and goods and services provided, and excludes intra-Group trading and value added tax.

Profits
Profit on contracts is calculated in accordance with accounting standards and industry practice and may not relate to turnover. The principal estimation technique used by the Group in attributing profit on contracts to a particular accounting period is the preparation of forecasts on a contract-by-contract basis. These focus on costs to complete and enable an assessment to be made of the final outturn on each contract. Consistent contract review procedures are in place in respect of contract forecasting.

The general principles for profit recognition are:

- profit in respect of short-term contracts is recognised when the contract is completed;
- profit in respect of long-term contracts is recognised on a percentage of completion basis when the contract's ultimate outcome can be foreseen with reasonable certainty;
- provision is made for losses incurred or foreseen in bringing the contract to completion as soon as they become apparent; and
- claims receivable are recognised as income when received or certified for payment except that, in preparing contract forecasts to completion, a prudent and reasonable evaluation of claims receivable may be included to mitigate foreseeable losses.

Profit in respect of house sales is taken at the time of legal completion of the sale. Profit in respect of land sales and land exchanges is taken on the unconditional exchange of contract.

Profit in respect of property developments is taken on unconditional exchange of contracts on disposals of finished developments. Profit taken is subject to any amounts necessary to cover residual commitments relating to development performance. Provision is made for any losses foreseen in completing a development as soon as they become apparent. Where construction of pre-sold developments is undertaken directly by the Group, for contracts of more than one year in duration, turnover and profit are recognised in accordance with SSAP 9 'Stocks and Long-Term Contracts'. Profit in these circumstances is calculated by reference to the degree of completion of the contract at the end of each period.

Employee share schemes (LTIP)
The cost to the Group of awards to employees under the Kier Group LTIP is spread on a straight line basis over the relevant performance criteria period. The scheme awards a number of shares to senior employees which will vest after three years if particular criteria are met. The award may either be taken as shares or as a combination of shares and cash based on the share price prevailing when the shares vest. The cost of the share based payment element of the scheme is based on the market value of the shares at the date the options are granted, and the cost of the cash based payment element is based on the market value of the share options at the balance sheet date. Amounts charged to the profit and loss account for share based payments are added to the share scheme reserve.

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

The net balance on the share scheme reserve is included as a separate item in the balance sheet within shareholders' funds.

1 Accounting policies continued

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

When financial close is achieved on Private Finance Initiative (PFI) or Public Private Partnership (PPP) contracts, external costs are recovered from the special purpose vehicle and pre-contract costs are credited to the profit and loss account, except to the extent that the Group retains a share in the special purpose vehicle. The amount not credited is deferred and recognised over the life of the construction contract to which the costs relate. Success fees and financing arrangements, which are not generally material amounts, are deferred in full and recognised over the life of the financing in place for the special purpose vehicle.

Tangible fixed assets
Land is not depreciated. In accordance with FRS 15 'Tangible Fixed Assets', for freehold buildings and other assets, depreciation is provided in order to write off the cost less residual value over the estimated lives of the assets. The rates of depreciation are as follows:

Freehold property	2% to 4% per annum
Leasehold property	over the term of the lease
Plant, vehicles and fixtures	10% to 33% per annum

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

The total cost of restoration is recognised as a provision as soon as the mine becomes operational. The amount provided represents the present value of the anticipated costs. Costs are charged against the provision as incurred and the unwinding of the discount is included within interest payable. A tangible fixed asset is created for an amount equivalent to the initial provision and depreciated on a coal extraction basis over the life of the asset.

Leased assets
Assets acquired under finance leases are capitalised and appropriately depreciated and the capital element of outstanding lease rentals is included in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Stock
Stock and work in progress is stated at the lower of cost, which includes attributable overheads, and net realisable value.

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

Deferred taxation
In accordance with FRS 19 'Deferred Tax', deferred taxation is provided fully and on a non-discounted basis at expected future corporation tax rates in respect of timing differences between profits computed for taxation and accounts purposes.

No provision is made in respect of tax liabilities which would arise if fixed asset properties were sold in their existing state at their book values unless it is intended to dispose of those assets.

Joint arrangements and joint ventures
Interests in joint arrangements are accounted for by recognising the Group's share of assets and liabilities, profits, losses and cash flows, measured according to the terms of the arrangement. Investments in joint ventures are accounted for under the gross equity method.

Foreign currencies
Transactions denominated in foreign currencies are recorded at the exchange rates in effect when they take place. Resulting foreign currency denominated assets and liabilities are translated at the exchange rates ruling at the balance sheet date unless they are covered by forward foreign exchange contracts, in which case the contract rates are used. Exchange differences arising from foreign currency transactions are reflected in the profit and loss account.

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

Pension costs
The pension costs charged against profits are based on an actuarial method and actuarial assumptions designed to spread the anticipated pension costs over the service lives of the employees in the pension schemes, in a way that seeks to ensure that the regular pension cost represents a substantially level percentage of the current and expected future pensionable salary roll in the light of current actuarial assumptions. Variations from regular costs are spread over the average remaining service lives of current employees in the pension schemes.

2 Turnover, profit and segmental information

Segmental analysis of the results is shown below:

	Turnover		Operating profit		Profit before tax	
	2004 £m	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m
Construction & Services	**1,205.0**	1,237.9	**15.6**	12.9	**23.2**	21.2
Homes	**215.7**	180.1	**31.8**	26.3	**24.5**	19.9
Property	**46.6**	21.2	**6.6**	6.1	**5.0**	4.6
Infrastructure Investment	**9.2**	6.4	**(1.9)**	(0.5)	**(1.3)**	0.7
Corporate overhead/finance	**–**	–	**(9.5)**	(8.6)	**(10.8)**	(10.8)
Investment in Belan	**–**	–	**–**	(2.3)	**–**	(2.3)
	1,476.5	1,445.6	**42.6**	33.9	**40.6**	33.3

Construction & Services operating profit and profit before tax is after deducting £2.6m for the amortisation of goodwill (2003: £0.9m).

	Net operating assets		Net assets	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Construction & Services	**(122.0)**	(143.8)	**66.3**	63.5
Homes	**201.3**	179.2	**53.6**	43.5
Property	**24.8**	(14.2)	**8.1**	5.3
Infrastructure Investment	**9.0**	11.1	**(1.8)**	(0.9)
Corporate overhead/finance	**(4.3)**	(1.6)	**(9.8)**	(18.7)
	108.8	30.7	**116.4**	92.7

Geographical analysis of the results is shown below:

	Turnover		Operating profit		Profit before tax	
	2004 £m	2003 £m	**2004 £m**	2003 £m	**2004 £m**	2003 £m
United Kingdom	**1,430.3**	1,368.2	**40.7**	26.1	**38.6**	25.4
Rest of World	**46.2**	77.4	**1.9**	7.8	**2.0**	7.9
	1,476.5	1,445.6	**42.6**	33.9	**40.6**	33.3

	Net operating assets		Net assets	
	2004 £m	2003 £m	**2004 £m**	2003 £m
United Kingdom	**114.4**	40.7	**113.5**	86.6
Rest of World	**(5.6)**	(10.0)	**2.9**	6.1
	108.8	30.7	**116.4**	92.7

The above analysis of turnover shows the geographical segments from which the products or services are supplied and is not materially different from the geographical segments to which products or services are supplied.

Net operating assets represent assets excluding cash, bank overdrafts, long-term borrowings and interest-bearing inter-company loans (see note 15).

Net operating assets and net assets at 30 June 2003 have been restated in accordance with UITF 17 (Revised 2003) and UITF 38.

2 Turnover, profit and segmental information continued

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2004 £m	2003 £m
Remuneration of auditors – audit fees	**0.6**	0.7
– other fees	**0.1**	0.2
Hire of plant and machinery	**23.1**	27.9
Operating lease rentals:		
Land and buildings	**2.4**	1.7
Plant and machinery	**9.0**	7.7
Goodwill amortisation	**2.6**	0.9
Depreciation of tangible fixed assets	**8.1**	8.1
Profit on sale of tangible fixed assets	**(1.3)**	(0.8)

Remuneration of the auditors in respect of the Company for audit amounted to £4,300 (2003: £4,100). Other fees payable to auditors relate to taxation advisory work. No consultancy related work has been carried out by the auditors in either of the two years ended 30 June 2004.

In addition to the above £0.1m of audit fees (2003: £0.1m) and £0.3m of non-audit fees (2003: £0.3m) were payable to the Group auditors by joint ventures in which the Group has an interest.

3 Net interest (payable)/receivable – Group

	2004 £m	2003 £m
Interest receivable	**3.0**	2.1
Interest payable on bank loans and overdrafts	**(1.2)**	(0.8)
Interest payable on long-term borrowings	**(2.0)**	(0.7)
	(0.2)	0.6

4 Information relating to employees

	2004 No	2003 No
Average number of persons employed during the year including executive directors was:		
United Kingdom	**6,978**	6,192
Rest of World	**1,351**	1,302
	8,329	7,494

	£m	£m
Group staff costs are as follows:		
United Kingdom	**220.5**	195.8
Rest of World	**11.3**	18.0
	231.8	213.8
Wages and salaries	**197.4**	185.1
Social security costs	**17.1**	14.5
Other pension costs (note 6)	**17.3**	14.2
	231.8	213.8

5 Information relating to directors

Information relating to directors’ emoluments, pension entitlements, share options and LTIP interests appears in the Directors’ Remuneration Report on pages 47 to 52.

6 Pensions

a) SSAP 24 'Pension Costs'
The principal UK pension scheme is the Kier Group Pension Scheme which includes a defined benefit section and a defined contribution plan. The assets of the Scheme are held under trust separately from those of the Group; the Trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers. Pension costs are assessed on the advice of an independent qualified actuary using the projected unit method and the following main assumptions for the financial year ended 30 June 2004:

- pension liabilities will be discounted at the rates of 7.25% pre-retirement and 6.25% post-retirement per annum;
- salary increases will be 4.3% to 4.8% per annum; and
- present and future pensions will increase at either 2.7% per annum or at rates set in the Scheme rules.

The same method and assumptions were used for the last formal actuarial valuation of the Scheme as at 1 April 2002 which showed that the market value of the Scheme's assets was £307.2m and that this represented 94% of the value of the benefits which had accrued to members, after allowing for projected future increases in salaries.

The results of the above valuation were rolled forward to 30 June 2002 to determine the pension costs for the financial years to 30 June 2003 and 30 June 2004 with allowance for actual investment performance to 30 June 2002 and for the new early retirement terms which were introduced in 2003. At 30 June 2002, the market value of the Scheme's assets was £296.8m which represented 93% of members' accrued benefits after allowing for projected increases in salaries.

The Groups' pension charge to the defined benefit section of the Scheme has been calculated on the basis of the above review and was not materially different from the contribution paid during the year amounting to £12.3m (2003: £13.0m).

The above pension cost is in respect of the defined benefit section of the Scheme. This section was closed to new entrants on 1 January 2002 with most new employees after that date being offered membership of the Retirement Savings Plan, a defined contribution arrangement. The Group is required to pay contributions in respect of those employees in accordance with the rates specified in the Plan. The contributions paid to the Retirement Savings Plan during the year, and the pension charge amounted to £1.2m (2003: £0.5m).

The Group also participates in another defined benefit scheme through its subsidiary Kier Sheffield LLP which has participated as an admitted body in the South Yorkshire Pension Fund since 1 April 2003. As an admitted body, it was granted a fully funded past service position at that date and has paid contributions at the rate of 12.5% of pensionable pay which the Fund's actuary has determined is sufficient to meet ongoing benefits. In addition, it has paid additional contributions to fund certain pension benefits payable upon redundancy.

Kier Sheffield LLP's pension costs are assessed on the advice of an independent qualified actuary using the projected unit method and the following main assumptions for the financial year ended 30 June 2004:

- Pension liabilities will be discounted at the rates of 6.5% per annum;
- Salary increases will be 4.0% per annum;
- Present and future pensions will increase at 2.5% per annum.

The same method and assumptions were used for the last actuarial valuation of the Fund and the determination of Kier Sheffield LLP's contributions. As noted above, Kier Sheffield LLP was granted a fully funded past service position as at 1 April 2003 with assets and ongoing past service liabilities of £65.0m.

Kier Sheffield's pension charge for the financial year ended 30 June 2004 has been calculated on the basis of the above and, given the fully funded past service position, is equal to the contributions paid during the year which amount to £2.9m (2003: £0.7m).

The above pension cost is in respect of those employees who transferred from Sheffield Council's employment to Kier Sheffield upon the start of the contract. New employees are offered membership of the Retirement Savings Plan section of the Kier Group Pension Scheme. Kier Sheffield LLP is required to pay contributions in respect of these employees in accordance with the rates specified in the rules of the Plan.

Contributions are also made in respect of former members of the Kier Group Retirement Benefit Scheme and hourly paid operatives, to an industry-wide stakeholder scheme, and in respect of employees who are members of a local government pension scheme. The pension costs for these have been taken as the actual contributions paid over the year.

b) FRS 17 'Retirement Benefits'
Details of the Kier Group Pension Scheme and the pension arrangements for Kier Sheffield LLP, under FRS 17 are given below:

The valuation used for the FRS 17 disclosure for the Kier Group Pension Scheme has been based on the most recent actuarial valuation at 1 April 2002 updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the Scheme at 30 June 2004. The Scheme's assets are stated at their market values at 30 June 2004.

The numbers disclosed for the Kier Sheffield LLP pension arrangements have been based on an assessment of Kier Sheffield LLP's assets in the South Yorkshire Pension Fund (SYPF) which has been carried out by an independent qualified actuary to take account of the requirements of FRS 17. Kier Sheffield LLP was granted a fully funded past service position in the SYPF in respect of 1,146 transferring employees who were active members of the Fund at 31 March 2003. For the period 31 March 2003 to 30 June 2003, the contributions paid of £0.7m together with the investment returns were estimated to be more than sufficient to maintain the fully funded past service position at 30 June 2003. Full disclosure of the pension arrangements under FRS 17 has been provided with effect from 1 July 2003.

6 Pensions continued

The financial assumptions used to calculate the disclosure for the Kier Group Pension Scheme of scheme liabilities under FRS 17 are:

	2004 %	2003 %	2002 %
Rate of general increases in salaries	**4.3**	3.8	4.0
Rate of increase to pensions in payment liable for Limited Price Indexation	**2.8**	2.5	2.5
Discount rate	**5.9**	5.5	6.0
Inflation rate	**3.0**	2.5	2.5

The assets in the Kier Group Pension Scheme and the expected rate of return were:

	Long-term rate of return expected			Value		
	2004 %	2003 %	2002 %	2004 £m	2003 £m	2002 £m
Equities	**8.5**	8.0	8.0	**158.8**	162.3	178.5
Corporate bonds	**5.5**	5.0	6.0	**100.8**	58.0	53.7
Government bonds	**5.0**	4.5	5.0	**66.2**	72.4	64.6
Total market value of assets				**325.8**	292.7	296.8
Present value of liabilities				**(421.8)**	(406.5)	(362.9)
Deficit				**(96.0)**	(113.8)	(66.1)
Related deferred tax asset				**28.8**	34.1	19.8
Net pension liability				**(67.2)**	(79.7)	(46.3)

The financial assumptions used to calculate the disclosure for the Kier Sheffield LLP pension liabilities under FRS 17 are:

	2004 %	2003 %
Rate of general increases in salaries	**4.3**	3.8
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.1**	2.6
Discount rate	**5.9**	5.5
Inflation rate	**3.0**	2.5

The assets attributable to the Kier Sheffield LLP pension arrangements and the expected rate of return were:

	Long-term rate of return expected		Value	
	2004 %	2003 %	2004 £m	2003 £m
Equities	**8.5**	8.0	**60.9**	52.2
Corporate bonds	**5.5**	5.0	**5.0**	5.2
Government bonds	**5.0**	4.5	**17.2**	15.4
Total market value of assets			**83.1**	72.8
Present value of liabilities			**(74.0)**	(65.5)
Surplus			**9.1**	7.3
Related deferred tax liability			**(2.7)**	(2.2)
Net pension asset			**6.4**	5.1

6 Pensions continued

	2004 Kier Group Pension Scheme £m	2004 Kier Sheffield LLP £m	2004 Total £m	2003 Kier Group Pension Scheme £m
Analysis of the amount which would be charged to operating profit under FRS 17				
Current service cost	**(14.2)**	**(2.7)**	**(16.9)**	(14.4)
Curtailment cost	**–**	**(0.8)**	**(0.8)**	–
Total operating charge	**(14.2)**	**(3.5)**	**(17.7)**	(14.4)
Analysis of net return on pension scheme assets				
Expected return on pension scheme assets	**19.1**	**5.2**	**24.3**	20.9
Interest on pension liabilities	**(21.9)**	**(3.6)**	**(25.5)**	(21.3)
Net return	**(2.8)**	**1.6**	**(1.2)**	(0.4)
Analysis of amount to be recognised in Statement of Total Recognised Gains and Losses (STRGL) had FRS 17 been operative				
Actual return less expected return on assets	**12.8**	**2.3**	**15.1**	(28.5)
Changes in assumptions underlying the present value of liabilities	**9.7**	**(1.5)**	**8.2**	(17.4)
Actuarial gain/(loss) recognised in STRGL	**22.5**	**0.8**	**23.3**	(45.9)
Movement in deficit during the year				
(Deficit)/surplus at 1 July	**(113.8)**	**7.3**	**(106.5)**	(66.1)
Movement in year				
Current service cost	**(14.2)**	**(2.7)**	**(16.9)**	(14.4)
Contributions	**12.3**	**2.9**	**15.2**	13.0
Past service costs	**–**	**(0.8)**	**(0.8)**	–
Other finance (cost)/income	**(2.8)**	**1.6**	**(1.2)**	(0.4)
Actuarial gain/(loss)	**22.5**	**0.8**	**23.3**	(45.9)
(Deficit)/surplus at 30 June	**(96.0)**	**9.1**	**(86.9)**	(113.8)
History of experience gains and losses				
Difference between expected and actual return on assets	**12.8**	**2.3**	**15.1**	(28.5)
% of assets	**4%**	**3%**	**4%**	(10%)
Changes in assumptions underlying the present value of liabilities	**9.7**	**(1.5)**	**8.2**	(17.4)
% of liabilities	**2%**	**(2%)**	**2%**	(4%)
Total amount recognised in STRGL	**22.5**	**0.8**	**23.3**	(45.9)
% of assets/liabilities	**5%**	**1%**	**5%**	(11%)

An analysis of anticipated contribution and income receipts and benefit payments indicates that the Kier Group Pension Scheme is likely to enjoy positive net cash flows for the next eight years.

7 Taxation

a) Analysis of the charge in the year

	2004 £m	2003 £m
Current tax		
UK corporation tax on profits for the year at 30%	**10.8**	9.0
Joint venture tax	**0.1**	0.3
Overseas tax	**0.5**	0.9
Adjustments in respect of previous years	**0.6**	(0.4)
Total current tax (note 7b)	**12.0**	9.8
Deferred tax		
Origination and reversal of timing differences	**0.3**	(0.2)
Joint venture tax	**(0.3)**	0.4
Adjustments in respect of previous years	**–**	(0.5)
Total deferred tax	**–**	(0.3)
Total tax on profit on ordinary activities	**12.0**	9.5

b) Factors affecting the tax charge for the year

The current tax charge for the year is marginally lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004 £m	2003 £m
Profit on ordinary activities before taxation	**40.6**	33.3
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**12.2**	10.0
Effects of:		
Expenses not deductible for tax purposes	**0.5**	0.5
Utilisation of tax losses	**(0.2)**	(0.1)
Capital gains not taxable	**(0.3)**	–
Profits offset by capital losses	**–**	(0.2)
Loss on investment in Belan Limited	**–**	0.7
Movement in tax provisions	**0.3**	(0.5)
Capital allowances in excess of depreciation	**(1.1)**	(0.2)
Overseas tax in excess of UK tax relief	**0.1**	0.3
Joint venture deferred tax	**0.3**	(0.4)
Other	**(0.4)**	0.1
Adjustments to tax charge in respect of previous years – current tax	**0.6**	(0.4)
Current tax charge for the year (note 7a)	**12.0**	9.8

c) Factors that may affect future tax charges

The Group is not aware of any significant factors that may affect future tax charges.

8 Dividends

	2004 £m	2003 £m
Ordinary Shares		
Paid 6.0 pence (2003: 5.2 pence)	**2.2**	1.8
Proposed 13.0 pence (2003: 11.2 pence)	**4.6**	3.8
	6.8	5.6

9 Earnings per share

Earnings per share is calculated as follows:

	2004		2003	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Profit after tax	**28.6**	**28.6**	23.8	23.8
Add: goodwill amortisation	**2.6**	**2.6**	0.9	0.9
Less: tax on goodwill amortisation	**(0.6)**	**(0.6)**	(0.2)	(0.2)
Adjusted profit after tax	**30.6**	**30.6**	24.5	24.5
	million	**million**	million	million
Weighted average number of shares	**35.1**	**35.1**	34.2	34.2
Weighted average number of unexercised options – dilutive effect	**–**	**0.1**	–	0.3
Weighted average impact of LTIP	**–**	**0.2**	–	0.4
Weighted average number of shares used for EPS	**35.1**	**35.4**	34.2	34.9
	pence	**pence**	pence	pence
Earnings per share	**81.5**	**80.8**	69.5	68.2
Adjusted earnings per share (after excluding goodwill amortisation)	**87.2**	**86.4**	71.6	70.2

10 Intangible assets

Group	Goodwill £m
Cost	
At 1 July 2003	22.0
Additional fees on past acquisition	0.1
At 30 June 2004	**22.1**
Amortisation	
At 1 July 2003	0.9
Charge for the year	2.6
At 30 June 2004	**3.5**
Net book value	
At 30 June 2004	**18.6**
At 30 June 2003	21.1

Intangible assets comprise goodwill arising on the acquisition of Partnerships First Limited in 2002, which is being amortised over a period of 10 years, and on the acquisition by the Group of the business and assets of the Construction and Building Services operation of Sheffield City Council in 2003, which is being amortised over a period of between 7 and 10 years.

11 Tangible fixed assets

Group	Land and buildings £m	Plant, vehicles & fixtures £m	Mining assets £m	Total £m
Cost				
At 1 July 2003	22.2	67.3	3.6	93.1
Additions	1.0	10.3	14.1	25.4
Acquisitions	–	0.3	–	0.3
Disposals	–	(8.7)	–	(8.7)
Currency realignments	–	(0.3)	–	(0.3)
At 30 June 2004	**23.2**	**68.9**	**17.7**	**109.8**
Accumulated depreciation				
At 1 July 2003	0.7	39.4	–	40.1
Charge for the year	0.2	7.6	0.3	8.1
Disposals	–	(7.0)	–	(7.0)
Currency realignments	–	(0.3)	–	(0.3)
At 30 June 2004	**0.9**	**39.7**	**0.3**	**40.9**
Net book value				
At 30 June 2004	**22.3**	**29.2**	**17.4**	**68.9**
At 30 June 2003	21.5	27.9	3.6	53.0

The net book value of land and buildings comprises freeholds of £21.1m (2003: £20.5m), long leaseholds of £1.0m (2003: £0.7m) and short leaseholds of £0.2m (2003: £0.3m).

12 Investments

a) Movements in year

	Group £m	Company £m
Interest in subsidiary undertakings		
At 1 July 2003	–	54.8
Additions	–	0.5
At 30 June 2004	**–**	**55.3**
Investment in joint ventures		
At 1 July 2003	30.7	–
Additions	0.4	–
Share of retained profit	1.6	–
Dividends received	(0.3)	–
Loan repayments	(0.2)	–
At 30 June 2004	**32.2**	**–**
Total investments	**32.2**	**55.3**

b) Analysis of investment in joint ventures

	Group				
	2004 £m Kier Developments Limited	2004 £m Prospect Healthcare (Hairmyres) Limited	2004 £m Other joint ventures	2004 £m Total	2003 £m Total
Investment in joint ventures					
Fixed assets	**–**	**–**	**0.1**	**0.1**	0.6
Current assets	**68.7**	**45.1**	**80.9**	**194.7**	158.5
Gross assets	**68.7**	**45.1**	**81.0**	**194.8**	159.1
Creditors – amounts falling due within one year	**(16.5)**	**(3.0)**	**(5.8)**	**(25.3)**	(12.8)
Creditors – amounts falling due after more than one year	**(51.2)**	**(41.3)**	**(72.9)**	**(165.4)**	(143.0)
Net external assets	**1.0**	**0.8**	**2.3**	**4.1**	3.3
Loans provided to joint ventures	**18.9**	**4.3**	**4.9**	**28.1**	27.4
Total investment in joint ventures	**19.9**	**5.1**	**7.2**	**32.2**	30.7

Details of the Group's principal operating subsidiaries are given on page 78. Details of the Group's interest in joint ventures are given on page 79.

13 Stock

	Group	
	2004 £m	2003 £m
Raw materials and consumables	**2.5**	1.7
Long-term contract balances	**18.3**	26.2
Land and work in progress held for development	**297.9**	225.2
Other work in progress	**9.9**	8.2
	328.6	261.3

Long-term contract balances and other work in progress is stated net of payments receivable on account of £nil (2003: £3.4m).

14 Debtors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Amounts falling due within one year:				
Trade debtors	**175.8**	160.9	**–**	–
Amounts recoverable on contracts	**24.5**	20.0	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**21.2**	19.2
Amounts receivable from joint ventures	**2.5**	1.3	**–**	–
Other debtors	**6.2**	4.1	**2.2**	1.9
Prepayments and accrued income	**6.3**	7.0	**–**	–
Corporation tax	**–**	–	**0.6**	0.8
Other taxation	**9.7**	4.7	**–**	–
	225.0	198.0	**24.0**	21.9
Amounts falling due after one year:				
Trade debtors	**–**	0.1	**–**	–
Amounts recoverable on contracts	**6.2**	7.1	**–**	–
	6.2	7.2	**–**	–
Total debtors	**231.2**	205.2	**24.0**	21.9

15 Creditors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Amounts falling due within one year:				
Bank loans and overdrafts	**3.7**	0.4	**57.5**	40.7
Payments received on account	**1.7**	5.3	**–**	–
Trade creditors	**360.0**	312.9	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**19.4**	19.8
Proposed dividend	**4.6**	3.8	**4.6**	3.8
Corporation tax	**5.1**	4.5	**–**	–
Other taxation and social security costs	**13.5**	17.5	**–**	–
Other creditors	**18.6**	38.7	**2.6**	3.2
Accruals and deferred income	**123.5**	112.2	**–**	–
	530.7	495.3	**84.1**	67.5
Amounts falling due after more than one year:				
Long-term borrowings	**30.1**	30.1	**30.1**	30.1
Trade creditors	**26.6**	20.8	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**10.0**	11.3
Accruals and deferred income	**1.8**	11.8	**–**	–
	58.5	62.7	**40.1**	41.4

Long-term borrowings due after more than one year comprises borrowings in respect of a 10-year private placement of loan notes made in February 2003. The borrowings are unsecured and fixed at an interest rate of 6.4% per annum for 10 years.

The amount of £10.0m (2003: £11.3m) due to subsidiary undertakings relates to loans which were made to the Company in accordance with the provisions of Sections 151 to 158 of the Companies Act 1985. The loans bear interest at 1% over bank base rate and are fully repayable by 3 July 2006.

16 Provisions for liabilities and charges

Group	Restoration of mining sites £m	Deferred tax £m	Contract provisions £m	Total £m
At 1 July 2003	–	0.1	13.0	13.1
Utilised	–	–	(7.7)	(7.7)
Additions	4.0	0.3	5.6	9.9
At 30 June 2004	**4.0**	**0.4**	**10.9**	**15.3**

Deferred taxation is fully provided as follows:

	2004 £m	2003 £m
Accelerated capital allowances	**2.3**	1.4
Short-term timing differences	**(0.7)**	(0.1)
Unrelieved tax losses	**(1.2)**	(1.2)
Provision for deferred tax	**0.4**	0.1

17 Obligations under leasing agreements

The annual instalments under non-cancellable operating leases entered into by the Group are set out below:

	Land and buildings		**Plant and machinery**	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Operating leases expiring:				
Within one year	**0.1**	0.1	**1.3**	1.3
Between one and five years	**0.6**	0.5	**6.7**	6.2
In five years or more	**2.1**	1.5	**0.5**	0.6
	2.8	2.1	**8.5**	8.1

18 Financial instruments

At 30 June 2004, the Group had cash, overdrafts and long-term borrowings denominated in the following currencies:

	2004			2003		
	Financial assets £m	**Financial liabilities £m**	**Aggregate £m**	Financial assets £m	Financial liabilities £m	Aggregate £m
Currency						
Sterling	**35.6**	**(16.7)**	**18.9**	81.4	(16.7)	64.7
US dollar	**2.1**	**(16.9)**	**(14.8)**	2.5	(13.4)	(10.9)
Hong Kong dollar	**2.5**	**–**	**2.5**	7.5	–	7.5
Other	**1.2**	**(0.2)**	**1.0**	1.1	(0.4)	0.7
Total	**41.4**	**(33.8)**	**7.6**	92.5	(30.5)	62.0

18 Financial instruments continued

There is no material difference between the carrying value and fair value of the Group's aggregate financial assets and liabilities, except as disclosed below. The maturity of the Group's financial liabilities is shown in the table below:

	2004 £m	2003 £m
Due in one year or less	**(3.7)**	(0.4)
Due in more than five years	**(30.1)**	(30.1)
	(33.8)	(30.5)

Amounts due in more than five years represent a £17.0m UK sterling loan and a £13.4m US dollar loan, net of £0.3m of capitalised finance costs, from the private placement of loan notes made in February 2003. The loans are repayable in one payment in February 2013. The UK sterling loan is at a fixed interest rate of 6.4%. The Group has entered into interest payment and repayment swaps for the US dollar loan, which give an effective 6.4% fixed interest rate.

The remaining financial assets and liabilities are cash, short-term deposits and overdrafts at floating rates based on LIBOR.

In addition to the financial assets and liabilities stated above, the Group had trade creditors due after more than one year made up as follows:

	2004 £m	2003 £m
Land creditors	**14.8**	9.2
Deferred consideration for acquisition	**4.6**	5.8
Others	**7.2**	5.8
	26.6	20.8

The weighted average period to maturity of the land creditors is 22 months (2003: 28 months). The fair value of these liabilities is £13.3m (2003: £8.1m). The discount rate applied is equivalent to the Group's current incremental borrowing rate.

The deferred consideration for acquisition relates to the balance of consideration payable on the Sheffield acquisition (see note 21c). In accordance with FRS 7 'Fair Values in Acquisition Accounting' the deferred consideration has been discounted to reflect the fair value of the Group's liability.

Other long-term liabilities principally include outstanding sub-contract retentions. There are no other material differences between book value and fair value of the Group's other long-term trade creditors.

Currency swaps are entered into to hedge part of the Group's foreign currency exposure:

	Book value £m	Fair value £m
Forward rate contracts	–	**(0.2)**

The Group has £67.5m of unsecured committed borrowing facilities due for renewal as follows:

	Undrawn facility £m
2005	**15.0**
2007	**52.5**
	67.5

In addition the Group has £12.5m of unsecured overdraft facilities repayable on demand.

The Group has taken advantage of the exemption in FRS 13 'Derivatives and other Financial Instruments' to exclude short-term debtors and creditors from the above analysis. Further information on the Group's cash flow, facilities and foreign currency exposure is contained in the Financial Review.

19 Share capital

The share capital of the Company comprises:

	2004 No	2004 £m	2003 No	2003 £m
Ordinary Shares of 1p each Authorised	**45,000,000**	**0.5**	45,000,000	0.5
Issued and fully paid	**35,525,754**	**0.4**	34,867,672	0.3

During the year 658,082 Ordinary Shares were issued at a total premium of £1.9m, of which 90,551 were issued as a scrip dividend alternative at a premium of £0.6m and 540,003 were issued under the Sharesave Scheme at a premium of £1.3m.

At 30 June 2004 there were options outstanding to subscribe for Ordinary Shares as follows:

	No	Period exercisable	Option price
Sharesave	625,504	2007	625p
Performance related	76,468	1999-2006	170p
Performance related	12,000	2001-2008	250p
Performance related	8,000	2001-2008	189.5p

20 Reserves

a) The movement on reserves is as follows:

Group	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Share scheme reserve £m	Profit & loss £m
At 1 July 2003 (as restated)	15.2	–	2.7	(0.7)	75.2
Issue of shares	1.9	–	–	–	–
Movement during the year (note 20b)	–	–	–	0.3	–
Profit for the year	–	–	–	–	28.6
Currency translation	–	–	–	–	(0.4)
Dividends	–	–	–	–	(6.8)
At 30 June 2004	**17.1**	**–**	**2.7**	**(0.4)**	**96.6**

The cumulative amount charged direct to profit and loss reserve in respect of goodwill is £9.1m (2003: £9.1m).

Company	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Share scheme reserve £m	Profit & loss £m
At 1 July 2003 (as restated)	15.2	1.2	2.7	(1.0)	9.1
Issue of shares	1.9	–	–	–	–
Movement during the year (note 20b)	–	–	–	0.2	–
Profit for the year	–	–	–	–	8.0
Dividends	–	–	–	–	(6.8)
At 30 June 2004	**17.1**	**1.2**	**2.7**	**(0.8)**	**10.3**

20 Reserves continued

b) Share scheme reserve

This reserve comprises own shares purchased to satisfy awards under the LTIP, net of amounts charged to the profit and loss account for these share based payments.

	Group		Company	
	2004	2003	**2004**	2003
Own shares held by Kier Group 1999 Employee Benefit Trust				
At 1 July	**(1.5)**	(1.6)	**(1.5)**	(1.6)
Purchases	**(0.1)**	(0.4)	**(0.1)**	(0.4)
Awards under LTIP	**0.4**	0.5	**0.4**	0.5
At 30 June	**(1.2)**	(1.5)	**(1.2)**	(1.5)
Accrued share based payments				
At 1 July	**0.8**	0.9	**0.5**	0.5
Awards under the LTIP Plan	**(0.4)**	(0.5)	**(0.3)**	(0.3)
Charge for the year	**0.4**	0.4	**0.2**	0.3
At 30 June	**0.8**	0.8	**0.4**	0.5
Net reserve	**(0.4)**	(0.7)	**(0.8)**	(1.0)

At 30 June 2004 the Kier Group 1999 Employee Benefit Trust held 267,414 Ordinary Shares in Kier Group plc at cost of £1.2m (2003: 421,115 at a cost of £1.5m). The market value of these shares at 30 June 2004 was £1.7m. The dividends on these shares have been waived.

All of the above shares have been conditionally awarded to employees through the LTIP, subject to the Group achieving prescribed earnings per share growth targets. The cost of the LTIP is based on the market value of the shares at the date on which the award was made. The cost is recognised based on a reasonable expectation to the extent to which performance criteria will be met and is accounted for over the three year period to which the performance targets relate.

During the year the Kier Group 1999 Employee Benefit Trust acquired a further 20,000 Ordinary Shares in Kier Group plc at a cost of £0.1m (2003:100,000 Ordinary Shares at a cost of £0.4m) and issued 173,701 shares to directors in satisfaction of the 2001 LTIP award at a cost of £0.4m.

21 Cash flow notes

a) Reconciliation of operating profit to operating cash flows

	2004 £m	2003 £m
Group operating profit	**39.4**	33.1
Amortisation of goodwill	**2.6**	0.9
Depreciation charges	**8.1**	8.1
Profit on sale of fixed assets	**(1.3)**	(0.8)
Increase in stocks	**(52.1)**	(5.8)
(Increase)/decrease in debtors	**(26.2)**	13.1
Increase in creditors	**27.9**	1.5
(Decrease)/increase in provisions	**(2.1)**	3.4
Net cash (outflow)/inflow from operating activities	**(3.7)**	53.5

b) Analysis of changes in net funds

	1 July 2003 £m	Cash flows £m	**30 June 2004 £m**
Cash at bank and in hand	41.5	(30.4)	**11.1**
Bank overdrafts	(0.4)	(3.3)	**(3.7)**
Short-term bank deposits	51.0	(20.7)	**30.3**
Long-term borrowings	(30.1)	–	**(30.1)**
Cash, net of debt	62.0	(54.4)	**7.6**

Cash, net of debt includes £10.2m (2003: £12.5m) being the Group's share of cash and liquid resources held by joint arrangements and £13.6m (2003: £12.6m) of cash not readily available to the Group.

21 Cash flow notes continued

c) Acquisitions and disposals

	2004 £m	2003 £m
Investment in subsidiary undertakings	**(17.0)**	(11.8)
Investment in subsidiary undertaking (overdraft)	**–**	(1.9)
Investment in joint ventures	**(0.2)**	(5.3)
	(17.2)	(19.0)

Acquisition of the business and assets of the Construction and Building Services operation of Sheffield City Council
On 31 March 2003 the Group, through its subsidiary Kier Sheffield LLP, acquired the business and assets of the Construction and Building Services operation of Sheffield City Council. The consideration, payable wholly in cash was £16.7m, representing £0.9m for the value of net assets acquired and £15.8m for goodwill.

The consideration is payable as follows:

	£m
Total consideration payable	**16.7**
Paid at 30 June 2003	**(9.6)**
Paid during the year ended 30 June 2004	**(1.5)**
Unwinding of discount	**0.3**
Deferred at 30 June 2004	**5.9**
Due in one year or less	**1.3**
Due between one and five years	**4.6**
	5.9

Acquisition of Tudor Homes
On 30 January 2004 the Group acquired the business of Tudor Homes. The consideration, payable wholly in cash, was £15.5m representing the value of the net assets acquired.

The following table sets out the book and fair values of the identifiable assets and liabilities acquired:

	Book and Fair Value £m
Tangible fixed assets	**0.3**
Stock and work in progress	**15.2**
Consideration paid	**15.5**

The following table summarises the results of Tudor Homes from the date of acquisition to 30 June 2004:

	£m
Turnover	**5.9**
Cost of sales	**(4.9)**
Gross profit	**1.0**
Administrative expenses	**(0.3)**
Operating profit	**0.7**

22 Capital commitments

Group	2004 £m	2003 £m
Contracted for but not provided in the accounts	**2.3**	1.5

23 Transactions with related parties

Sales of goods and services to joint arrangements, joint ventures and associates

	2004 £m	2003 £m
Construction services and materials	**36.7**	37.4
Staff and associated costs	**13.4**	9.4
Management services	**4.1**	2.7
	54.2	49.5

Amounts due from related parties are analysed below:

	2004 £m	2003 £m
Academy Services (Tendring) Limited	**0.4**	–
ASK (Greenwich) Limited	**–**	1.3
Baglan Moor Healthcare PLC	**3.4**	3.1
Information Resources (Bournemouth) Limited	**0.8**	0.8
Prospect Healthcare (Hairmyres) Limited	**5.3**	5.1
Prospect Healthcare (Reading) Limited	**1.9**	2.0
Kier Developments Limited	**18.8**	18.6
	30.6	30.9

The wife of Mr R W Gregory, a director of the Company, purchased a residential property from a subsidiary, Allison Homes Eastern Limited, during the year for the consideration of £159,691. The purchase price was at market value.

24 Contingent liabilities

There are contingent liabilities in respect of performance bonds, guarantees and claims under contracting and other agreements, including joint arrangements and joint ventures, entered into in the normal course of business, and commitments to support subsidiaries.

Principal operating subsidiaries

Construction & Services

Kier Regional Limited	IEI Building Services Engineers Kier Build Kier Eastern Kier London Kier Northern Kier North West Kier Partnership Homes Limited Kier Scotland Kier Southern Kier Western Marriott Construction Moss Construction Wallis
Kier National Limited	Kier Construction Limited Kier Plant Limited
Kier Support Services Limited	Caxton Facilities Management Limited Caxton Islington Limited Kier Building Maintenance Kier Sheffield LLP

Homes & Property

Kier Residential Limited	Allison Homes Eastern Limited Bellwinch Homes Limited Kier Homes Limited Kier Land Limited Twigden Homes Limited
Kier Property Limited	Kier Ventures Limited

Group Services and Infrastructure Investment

Kier Limited	Kier Engineering Services Kier Project Investment Limited

NOTES:

i Each company is registered in England and Wales and operates principally within the United Kingdom. Kier Construction Limited also operates in the Far East, Middle East, the Caribbean, the Americas and Romania.

ii The ordinary share capital of each company is wholly owned. Kier Group plc holds directly all the shares of Kier Limited and Kier Residential Limited. The shares of the other companies are held by subsidiary undertakings.

iii A full list of the Group's subsidiaries is included in the Company's Annual Return.

Principal joint arrangements, joint ventures and associated undertakings

Joint arrangements

Building and/or civil engineering construction
The following joint arrangements, in which the Group participation is between 33% and 50%, operate in England:

Kier/Nuttall	a joint arrangement between Kier Construction and Edmund Nuttall Limited
Nuttall/Wayss & Freytag/Kier	a joint arrangement between Edmund Nuttall Limited, Wayss & Freytag Ingenieurbau and Kier Construction
Kier/Murphy/ Interserve	a joint arrangement between Kier Construction, J Murphy & Sons Limited and Interserve Project Services Limited

The following joint arrangements, in which the Group participation is between 40% and 50%, operate overseas, in the territory indicated:

Hong Kong	
Kier/Zen	a joint arrangement between Kier Construction and Zen Pacific Limited
Suriname	
Kier/CCC	a joint arrangement between Kier Construction and Commercial Contracting Company of San Antonio, Inc.
Jamaica	
Kier/CCC	a joint arrangement between Kier Construction and Commercial Contracting Company of San Antonio, Inc.
Romania	
Mivan/Kier	a joint arrangement between Mivan Limited and Kier Construction
United States	
Kier/CCC	a joint arrangement between Kier Construction and CCC Group, Inc.

Commercial Property Development
The Group has a 25% participation in a joint arrangement in England between Kier Property and Norwich Union Life and Pensions Limited.

Joint ventures

	Interest held
Long-term concession holding under the Private Finance Initiative	
Academy Services (Holdings) Limited	50%
Academy Services (Waltham Forest) (Holdings) Limited	50%
ASK (Holdings) Limited	50%
Baglan Moor (Holdings) Limited	25%
Information Resources (Holdings) Limited	50%
Information Resources (Oldham) Holdings Limited	50%
Prospect Healthcare (Hairmyres) Group Limited	50%
Prospect Healthcare (Hinchingbrooke) Holdings Limited	50%
Prospect Healthcare (Reading) Holdings Limited	50%

International construction and contract mining
Incorporated and operating in the Hashemite Kingdom of Jordan

The Jordan Economic Development and Trading Company Limited	50%

Commercial property development

Kier Developments Limited	50%
Kier Warth Limited	50%

NOTES:

i The terms 'joint arrangement' and 'joint venture' are defined by FRS 9 'Associates and Joint Ventures'. Joint arrangements are contracted agreements to co-operate on a specific project which is an extension of the Group's existing business. Joint ventures are ongoing businesses carrying on their own trade.

ii Except where otherwise stated the companies are incorporated and operate in the United Kingdom.

Group principal businesses

Kier Regional
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
R W Side *MD*
P P J Cullen
M J Desmond
I M Lawson
A D Mullins
M P Sheffield
S A Tilley
M Wright

Kier Build
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

R W Side *Chairman*
M Dobson *MD*
T P Davies
J H Fozzard
A J Greenhalgh
W G Merry
M R Whiteley

Kier Eastern
53 South Brink
Wisbech
Cambridgeshire
PE14 0RA

S A Tilley *Chairman*
N W Meixner *MD*
I P Greenly
G C Howe
R W Kidger
C J Riley
J D Yates

Kier London
188 High Road
Loughton
Essex
IG10 1DH

M P Sheffield *Chairman*
P J Everard *MD*
J W Abbott
D R Avery
G C Garvie
C J Riley
N R Sheppard

Kier Northern
Lyndon House
198 High Street
Boston Spa
West Yorkshire
LS23 6BT

S A Tilley *Chairman*
W Kay *MD*
M A Ashton
S Flint
J M Gray
E Hume
C McNeil

Kier North West
Yardley Road
Knowsley Industrial Park
Liverpool
L33 7ST

S A Tilley *Chairman*
L Wilkinson *MD*
M A Ashton
I Entwistle
D Jenkins
P A Sloane
P Vickers

Kier Partnership Homes
Beecham Business Park
Northgate
Aldridge
Walsall
WS9 8TZ

I M Lawson *Chairman*
D L Seal *MD*
D B Hodson
M F Lewis

Kier Scotland
Campsie House
Buchanan Business Park
Cumbernauld Road
Glasgow
G33 6HZ

P P J Cullen *Chairman*
J McMenamin *MD*
A Clark
M M Rooke

Kier Southern
Maple Lodge Close
Maple Cross
Rickmansworth
Hertfordshire
WD3 9SN

M Wright *Chairman*
P H Durigan *MD*
D M Brown
S A Byford
N E Elliott
S Mason
M W Orr
G D Willoughby

Kier Western
The Old Mill
Chapel Lane
Warmley
Bristol
BS15 4WW

P P J Cullen *Chairman*
P R Young *MD*
J S Edmonds
R W Martini
K Payne
J Prosper
B J Sheen
D J Snell

Marriott Construction
Marriott House
Rushden
Northamptonshire
NN10 6EA

S A Tilley *Chairman*
R W Murphy *MD*
P Hawes
J S Henke
A Purvey
M M Rooke

Moss Construction
96 Leckhampton Road
Cheltenham
Gloucestershire
GL53 0BP

P P J Cullen *Chairman & MD*
R C Butler
B D Clarke
J C Mackman
M M Rooke
P J Turner

Wallis
47 Homesdale Road
Bromley
Kent
BR2 9TN

M Wright *Chairman*
R H Bush *MD*
D Evans
J R Gilbert
P B Griffith
F Hill
P Kitchener

Kier National
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman & MD*
R A Haller
M P Sheffield
P J Staniland

Kier Construction
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

M P Sheffield *Chairman*
R A Haller *MD*
G R Burn
P J Cave
D J Durey
D J Myers
D Rainford
A W Saul
T W Tagg

Kier Plant
The Lane
Chawston
Bedfordshire
MK44 3BH

M P Sheffield *Chairman*
I D Gordon *MD*
P J Glynn
D E Salter
N P Thorpe

Kier Support Services
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
I M Lawson *MD*
J R Bradley
N J Chidgey
C S Porton
R P Manning

Caxton Facilities Management
Conway House
St Mellons Business Park
Fortran Road
St Mellons
Cardiff
CF3 0LT

I M Lawson *Chairman*
C S Porton *MD*
M Davies
M Hill
P C Owen

Caxton Islington
33-37 Brewery Road
Islington
London
N7 7QH

J R Bradley *Chairman*
J Nelson *MD*
A Gibbons
R M Jackson
T C Tatham
C Thomas

IEI Building Services Engineers
Southern Cross
Basing View
Basingstoke
Hampshire
RG21 4HG

I M Lawson *Chairman*
R P Manning *MD*
D W Stiff

Kier Building Maintenance
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

I M Lawson *Chairman*
J R Bradley *MD*
P Byrnes
J Nelson
D A Sheridan
T C Tatham
C Thomas

Kier Sheffield
Manor Lane Depot
Manor Lane
Sheffield
S2 1TR

J R Bradley *Chairman*
D A Sheridan *MD*
A R Gammage
J Roney
C Thomas
L Weaver

Kier Residential
The Shrubbery
Church Street
St Neots
Cambridgeshire
PE19 2BY

J Dodds *Chairman*
R W Gregory *MD*
T J Barke
K Dixon
L E Garner
D E Mattar
M O'Farrell
R P Page
W R Reid

Allison Homes Eastern
Holland Place
Wardentree Park
Pinchbeck
Spalding
Lincolnshire
PE11 3ZN

R W Gregory *Chairman*
M O'Farrell *MD*
P Adams
L E Garner
M Jessop
M Smith

Bellwinch Homes
Malcolm House
Empire Way
Wembley
Middlesex
HA9 0LW

R W Gregory *Chairman*
R P Page *MD*
L E Garner
D F Lomas
J McCormack
J M Nowak
S P White
S J Whitehead

Kier Homes
Merlin House
Mossland Road
Hillington Park
Glasgow
GS2 4XZ

R W Gregory *Chairman*
W R Reid *MD*
D Cope
A Duffy
L E Garner
L J Hope
S A McDonagh
M T McGleish

Kier Land
The Shrubbery
Church Street
St Neots
Cambridgeshire
PE19 2BY

R W Gregory *Chairman*
K Dixon *MD*
L E Garner
I J Mitchell
R P Page

Twigden Homes
The Shrubbery
Church Street
St Neots
Cambridgeshire
PE19 2BY

R W Gregory *Chairman*
T J Barke *MD*
L E Garner
J G Hodgetts
A E Page
D P Seth
A P Walkerdine
A B Walsh

Kier Property
6 Cavendish Place
London
W1G 9BN

J Dodds *Chairman*
R W Simkin *MD*
C R Bain
T G Gilman
N A Turner
I P Woods

Kier Project Investment
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

D E Mattar *Chairman*
J A J Byrne *MD*
J Dodds
P R P George
J A N Tibbitts
J A Young

Kier Engineering Services
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
R A Haller *MD*

Financial record

Year ended 30 June	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Turnover: Group and share of joint ventures	**1,476.5**	1,445.6	1,382.7	1,251.1	1,034.8
Group operating profit	**39.4**	33.1	24.8	19.9	15.2
Joint ventures – share of operating profit	**3.2**	3.1	1.4	1.4	0.4
Total net interest	**(2.0)**	(0.6)	1.1	0.6	1.3
Other	**–**	(2.3)	0.7	–	0.8
Profit before tax	**40.6**	33.3	28.0	21.9	17.7
Taxation	**(12.0)**	(9.5)	(7.7)	(5.9)	(4.6)
Profit after tax	**28.6**	23.8	20.3	16.0	13.1
Dividends	**(6.8)**	(5.6)	(4.8)	(4.1)	(3.5)
Retained profit for the year	**21.8**	18.2	15.5	11.9	9.6
Earnings per Ordinary Share					
– undiluted	**81.5p**	69.5p	60.4p	48.0p	39.8p
Dividend per Ordinary Share	**19.0p**	16.4p	14.2p	12.3p	10.7p

At 30 June	£m	£m	£m	£m	£m
Shareholders' funds	**116.4**	92.7	73.8	57.8	44.5
Net assets per Ordinary Share	**327.7p**	265.9p	214.2p	170.3p	133.1p

Corporate information

Directors
C R W Busby FCA FCIOB *Chairman*
J Dodds *Chief Executive*
R W Gregory ACA
D E Mattar BSc FCA
R W Side FCIOB FFB MCMI
R W Simkin BSc MRTPI
P F Berry CMG MA
S W Leathes MA FCA
P T Warry MA LLB

D E Mattar *Secretary*

Headquarters and Registered Office
Kier Group plc
Tempsford Hall
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Bedfordshire
SG19 2BD

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www.kier.co.uk

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8 Salisbury Square
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EC4Y 8BB

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Bank of Scotland
New Uberior House
11 Earl Grey Street
Edinburgh
EH3 9BN

Barclays Bank PLC
54 Lombard Street
London
EC3V 9EX

Royal Bank of Scotland PLC
135 Bishopsgate
London
EC2M 3UR

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Stockbrokers
Panmure Gordon
A division of Lazard & Co., Ltd
50 Stratton Street
London
W1J 8LL

Financial calendar

27 November 2004
Annual General Meeting

7 December 2004
Payment of final dividend for 2003/04

March 2005
Announcement of results for the half year and interim dividend

May 2005
Payment of interim dividend

September 2005
Announcement of preliminary full year results and final dividend for 2004/05

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