



**PROFESSIONAL
COMMITTED
SUSTAINABLE**

KIER GROUP PLC
ANNUAL REPORT
AND ACCOUNTS 2010

Bexhill High School
 Kier Southern
 Subcontractors Aaron French (left) and Dean Sargeant are working for Kier Southern which has been employed under the IESF framework to design & build the new £35m Bexhill High School. This has involved the feasibility stages, submitting planning and pricing of the scheme, all within 15 months.



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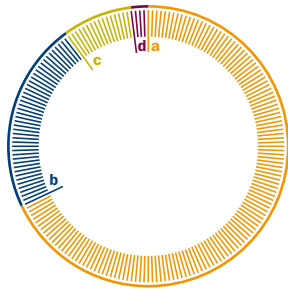
Group highlights

Kier Group plc is a leading construction, development and services group specialising in building and civil engineering, support services, private and affordable residential development, commercial property development and infrastructure project investment. The Group employs 11,600 people worldwide and has an annual revenue of £2.1bn.

Revenue

£2,099m

(2009: £2,146m)



Revenue by division (%)

- a** Construction 68%
- b** Support Services 22%
- c** Partnership Homes 8%
- d** Developments 2%

Net cash balances

£175.2m

(2009: £92.5m)

Earnings per share

(before the amortisation of intangible assets and exceptional items)

121.3p

(2009: 102.5p)

Construction secured and probable order books

£2,043m

(2009: £2,245m)

Profit before tax

(before exceptional items)

£55.5m

(2009: £50.6m)

Dividend per share

58.0p

(2009: 55.0p)

Support Services order books

£2,128m

(2009: £2,292m)



Front cover image

The Open Academy, Norwich Kier Eastern

Site manager Mark Sayer (left) and contracts manager John Claydon (right) at the Open Academy, Norwich. The project was completed in 2010 by Kier Eastern and features some of the most advanced elements for sustainability in the built environment. A full case study appears on page 38 as part of our Corporate Responsibility report for the year to June 2010.

Kier at a glance

STRATEGIC ALLIANCES AND FRAMEWORKS

Kier Health

Total value of awards

£97m

% delivered through frameworks

57%

- NHS ProCure 21

Kier Education

Total value of awards

£558m

% delivered through frameworks

67%

- Building Schools for the Future (BSF)
- Academies Contractors Framework
- Primary Schools Capital Investment Programme
- Local authorities

Kier Airports/Kier Rail

Total value of awards (including transport)

£36m

% delivered through frameworks

64%

- BAA plc Commodity Build Framework
- Network Rail Infrastructure renewal programme – East Anglia Region

Other sectors

Total value of awards

£305m

% delivered through frameworks

46%

- United Utilities – Integrated Alliance North (KMI Plus joint venture including Kier Construction)
- Local authorities, excluding education work

Kier Custodial

Total value of awards

£322m

% delivered through frameworks

82%

- Ministry of Justice Custodial Properties:
 - Prisons
 - Immigration
 - Probation
 - Youth Justice Board

Kier Retail

Total value of awards

£51m

% delivered through frameworks

60%

- J Sainsbury plc
- The British Land Company PLC
- Hermes GB Limited
- Wm Morrison Supermarkets PLC

Kier Partnership Homes

The division is a designated partner on 29 frameworks for Registered Affordable Housing Providers across the country. It was also selected as a member of the Delivery Partner Panel of the Homes and Communities Agency (HCA).

Kier Support Services

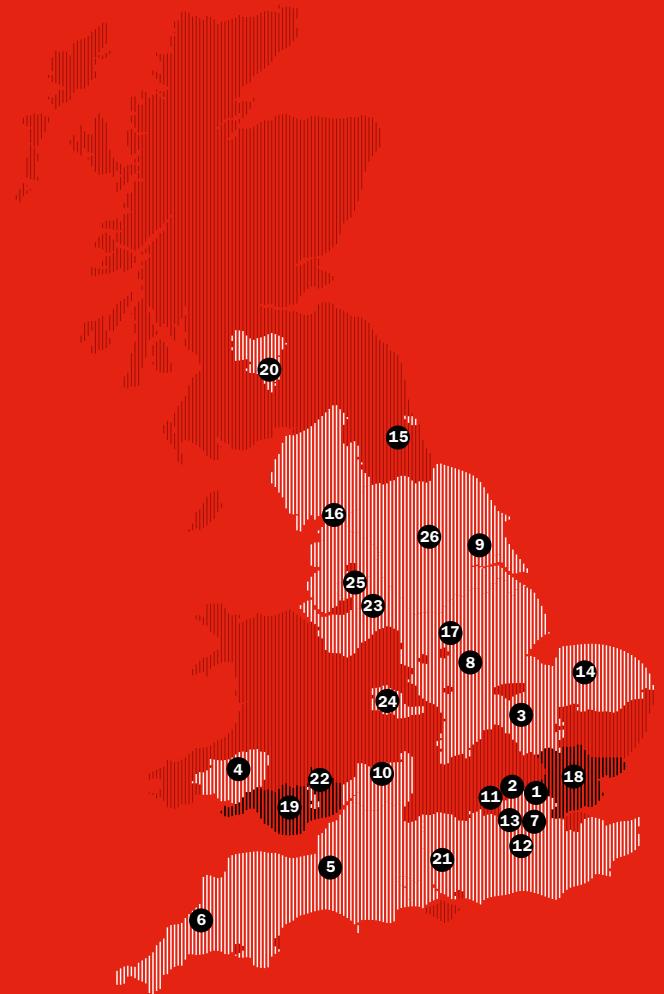
Major long-term local authority partnerships across the country including Sheffield City Council, Homes for Islington, Stoke-on-Trent Council, North Tyneside Council, Barnsley Council, Hull City Council, Harlow District Council and Harrow Council.

REGIONAL LOCAL AUTHORITY CONSTRUCTION FRAMEWORKS



Local authority construction framework contracts

Local authority construction framework contracts under bid



- | | |
|--|--|
| 1 Barking & Dagenham Council | 13 Kingston Council |
| 2 Barnet Council | 14 Norfolk County Council |
| 3 Cambridgeshire County Council | 15 North Tyneside Council |
| 4 Carmarthenshire Council | 16 North West Construction Hub |
| 5 Construction Framework South West | Greater Manchester |
| Devon | Lancashire |
| Cornwall | Cumbria |
| Dorset | Merseyside |
| Somerset | Cheshire |
| Avon | 17 Nottinghamshire County Council |
| South Gloucestershire | 18 Smarter East Alliance |
| Wiltshire | Essex |
| 6 Cornwall County Council | 19 South East Wales Construction Framework |
| 7 Croydon Council | Blaenau Gwent |
| 8 East Midlands Property Alliance (EMPA) including: | Bridgend |
| Nottinghamshire | Caerphilly |
| Derbyshire | Cardiff |
| Leicestershire | Merthyr Tydfil |
| Northamptonshire | Monmouthshire |
| Rutland | Newport |
| Lincolnshire | Rhondda Cynon Taff |
| 9 East Riding of Yorkshire Council | Torfaen |
| 10 Gloucestershire County Council | Vale of Glamorgan |
| 11 Harrow Council | 20 South Lanarkshire Council |
| 12 Improvement & Efficiency South East (IESE) including: | 21 Southampton City Council |
| Berkshire | 22 Torfaen Council |
| Hampshire | 23 Metropolitan Borough of Trafford |
| Surrey | 24 West Midland Contractor |
| East & West Sussex | Worcestershire |
| Kent | Herefordshire |
| London Borough of Brent | 25 Metropolitan Borough of Wigan |
| London Borough of Islington | 26 YorBuild |
| London Borough of Newham | Humberside |
| London Metropolitan Police | Yorkshire |

OPERATIONAL HIGHLIGHTS

Construction p16

- Kier Regional
- Kier Construction

Revenue

£1,417m

(2009: £1,492m)

Operating profit

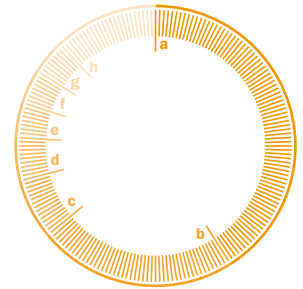
(before exceptional items)

£36.2m

(2009: £39.1m)

Construction contract awards (%)

- a Education 41%
- b Custodial 23%
- c Health 7%
- d Hotels & leisure 5%
- e Defence 4%
- f Retail 4%
- g Commercial 4%
- h Other 12%



Support Services p22

- Kier Building Maintenance
- Kier Facilities Services
- Kier Plant
- Kier Street Services

Revenue

£471m

(2009: £438m)

Operating profit

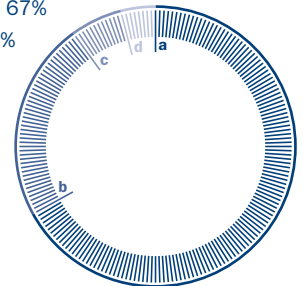
(before amortisation of intangible assets)

£21.4m

(2009: £17.9m)

Business revenue (%)

- a Building Maintenance 67%
- b Facilities Services 23%
- c Plant 6%
- d Street Services 4%



Partnership Homes p26

- Kier Partnership Homes

Revenue

£158m

(2009: £151m)

Operating profit

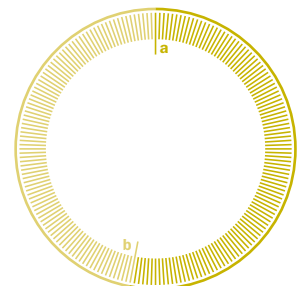
(before exceptional items)

£9.9m

(2009: £1.1m)

Unit sales (%)*

- a Social sales 53%
- b Private sales 47%



* Total unit sales 1,060

Developments p30

- Kier Property
- Kier Project Investment
- Kier Asset Partnership Services

Revenue

£53m

(2009: £65m)

Operating profit

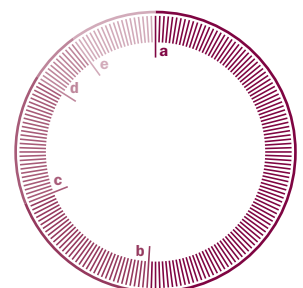
(before exceptional items)

£0.3m

(2009: -£1.9m)

Portfolio of PFI projects (%)*

- a Education 51%
- b Police facilities 18%
- c Health 15%
- d Libraries 6%
- e Other 10%



* Portfolio of 13 PFI projects with a committed equity investment of £27.9m

Chairman's statement



Chairman Phil White in discussion with chief executive Paul Sheffield

“The cash performance, one of our key measures, was exceptionally strong, particularly within our Construction businesses, with £111.4m generated from operating activities during the year. Net funds at 30 June 2010 were a record £175.2m (2009: £92.5m).”

I am pleased to report strong results for Kier Group plc for the year ended 30 June 2010. Underlying profit before tax, before the amortisation of intangible assets and exceptional items, grew 10.6% to £58.4m (2009: £52.8m); and earnings per share on the same basis grew 18.3% to 121.3p (2009: 102.5p) enhanced by a 6% reduction in the effective tax rate. Overall revenue remained solid at £2,098.7m (2009: £2,145.6m) with marginal growth in UK construction revenues offset by a reduction in overseas construction revenues together with growth in revenue in each of our Support Services and Partnership Homes divisions; an excellent achievement in the current environment.

Operating margins remained strong in our Construction division at 2.6% (2009: 2.6%) and grew in our Support Services division to 4.5% (2009: 4.1%). The Partnership Homes division also saw an increase in operating margin to 6.3% (2009: 0.7%) benefiting, in particular, from land disposals and transfers during the year.

The cash performance, one of our key measures, was exceptionally strong, particularly within our Construction businesses, with £111.4m generated from operating activities during the year. Net funds at 30 June 2010 were a record £175.2m (2009: £92.5m).

Having maintained the total dividend at 55p for two years the Board has demonstrated its progressive dividend policy by proposing to increase the total dividend for the year by 5.5% to 58.0p (2009: 55.0p) which is more than twice covered by adjusted earnings per share. The final dividend of 39.5p will be paid on 26 November to shareholders on the register on 24 September and there will be a scrip dividend alternative.

Board changes

In March 2010 we said farewell to our chief executive John Dodds who had been with the Group for nearly 40 years, seven of them as chief executive. John has been succeeded as chief executive by Paul Sheffield, who was managing director of the Construction division and who has been with Kier for over 25 years. The role of managing director of the Construction division has now been assumed by Steve Bowcott who we welcomed to the Board in July 2010.

Deena Mattar, our Group finance director, announced in July 2010 that she would be leaving the Group at the Company's annual general meeting

on 12 November 2010 after nine years in her current role and 12 years at Kier. Haydn Mursell joined the Group on 18 August 2010 as Group finance director designate and is expected to take over the role of Group finance director upon Deena's departure. Haydn joins the Group from Balfour Beatty plc where he was deputy finance director.

In September 2010 we announced that Simon Leathes, non-executive director and chairman of the Audit Committee, would also be stepping down from the Board at the Company's annual general meeting after nearly ten-years. He will be succeeded by Richard Bailey who will join the Board on 1 October 2010.

On behalf of the Board I would like to thank John, Deena and Simon for their contributions to Kier and I welcome Paul, Steve, Haydn and Richard to their new roles.

Prospects

We enter the new financial year with healthy order books in our Construction and Support Services divisions at a combined level of £4.2bn (2009: £4.5bn) together with a strong pipeline of further opportunities for both of these businesses. Our Partnership Homes division is responding well to opportunities in the social housing market and our land bank is a valuable asset, becoming more so as planning restrictions tighten further. We intend to develop or sell plots over time in order to realise our cash investment. Our Developments business is seeing improvement in the appetite for property development sites and continues to provide property solutions to clients supported by all the divisions within the Group.

Our integrated business model continues to provide us with competitive advantages by providing a total solutions offering to both private and public sector clients.

Market conditions in 2011 will remain challenging for all our businesses. However, with our strong track record of delivery and our innovative financing and planning skills, we expect to continue to grow our UK market share, particularly in Construction and Support Services. I therefore anticipate that the Group will make further progress in the new financial year.

Phil White
Chairman

Revenue

£2,099m

(2009: £2,146m)

Underlying profit before tax

(before the amortisation of intangible assets and exceptional items)

£58.4m

(2009: £52.8m)

+10.6%

Chief executive's review

Paul Sheffield, chief executive



We are committed to delivering quality and professionalism in the following ways:

1

ONE INTEGRATED BUSINESS MODEL

Our integrated business model, combined with our resources, expertise and experience, allows us to offer a quality single solution for customers at every stage of the building, property, infrastructure and services life-cycle.

2

OUR COMBINED STRENGTH: ONE KIER

Our flexible, customer-led solutions enable us to meet our clients' requirements and to add value to their property infrastructure through a variety of combined, high-quality services that are both bespoke and seamless.

3

HOW WE WORK: OUR VISION

Our vision is to be the most highly respected company in the industry. To achieve this we pledge to offer our customers the best quality of service, to maintain our robust approach to corporate responsibility and to drive sustainable, profitable growth.



1

ONE INTEGRATED BUSINESS MODEL

Our four divisions work together to deliver services across the entire built environment process. Our integrated approach covers planning and investment, development and design, construction and infrastructure works, as well as building maintenance and facilities management. At the end of the property life-cycle, we undertake refurbishment or complete regeneration.

CONSTRUCTION p16

SUPPORT SERVICES p22

PARTNERSHIP HOMES p26

DEVELOPMENTS p30



PLAN

Planning, whether for local authority consent or in project planning itself, is the first series of hurdles to any building or infrastructure project. The Developments division, through its property development arm, has strategic property planning at the heart of its operations, whilst the Partnership Homes division undertakes planning solutions for all of its residential schemes across the UK. Our in-house expertise in design and build is backed by our 3D and 4D modelling and visualisation tools.

INVEST

For both public and private sector customers, we have the track record and resources to help plan, manage and discharge investment requirements, whether for commercial, industrial, retail, residential or local authority property requirements. The Developments division via its property, project investment (our business for PFI projects) and asset partnership business teams can offer a range of possible property development solutions to maximise customers' asset values.

DEVELOP

Development is what we do. As an independent property developer, in joint venture with other operational/ financial partners, or as part of major third-party regeneration or mixed-use schemes. The Developments division combines with the Construction, Partnership Homes and Support Services divisions to offer customers a complete property development and infrastructure service for any scheme in the UK.

CHIEF EXECUTIVE'S REVIEW

- 1. ONE INTEGRATED BUSINESS MODEL**
- 2. OUR COMBINED STRENGTH: ONE KIER**
- 3. HOW WE WORK: OUR VISION**



CONSTRUCT

With 32 regional offices and the experience and expertise provided by some 5,200 employees worldwide in our construction businesses, major projects unit and civil engineering business, we can construct just about anything anywhere in the UK and overseas. When allied to the expertise of our Partnership Homes division, these resources and track record of building across every major market sector ensure that we can meet any customer's requirements.

MAINTAIN

Already maintaining over 240,000 homes across the UK and providing facilities management services to a wide range of both private and public sector customers, we are better placed than most of our peers to provide the complete range of both reactive and planned maintenance services as well as waste collection and recycling, street scene and grounds maintenance. These services, together with the design, installation and maintenance of full-scale M&E projects, give us capabilities in all maintenance services.

REFURBISH

We have an enviable track record in refurbishing, converting and modernising existing building stock, whether inner-city commercial and retail units, local government buildings, mixed-use schemes or residential projects. We are also recognised as one of the leading contractors for refurbishing and renovating listed and historic buildings, with many examples across the UK.

REGENERATE

Turning full circle in the property life-cycle, we have the experience and capabilities to completely regenerate brownfield sites or redundant buildings, including demolition, remediation of contaminated land, planning, ground and civil engineering, design & build services for commercial, residential, retail and/or industrial redevelopment. Whether full turnkey management and delivery or individual packages, we can provide any redevelopment solutions.

2

OUR COMBINED STRENGTH: ONE KIER

Whatever a customer requires at any stage of the built environment life-cycle, one or more of our businesses can bring them solutions, individually or combined, locally or nationally. Our network of regional offices and our strong local relationships ensure that we can supply both the skills and the resources to meet customer demands, any time, anywhere.

CONSTRUCTION p16

- Regional building contractors
- Major projects
- Construction
 - Civil engineering
 - Infrastructure
 - Mining
 - Overseas
- Technical services

Key customers

- Ministry of Justice
- NHS
- Network Rail
- United Utilities
- EDF Energy
- Sainsbury's
- Local authorities
- Overseas (Abu Dhabi/Jamaica/Saudi Arabia/Hong Kong)

Key facts

32



Offices across UK

1,287



Employees (expatriate & locally employed) working on overseas contracts

3,945



Average number of employees during the year

SUPPORT SERVICES p22

- Building Maintenance
 - Reactive & planned
 - Local authorities & housing associations
- Facilities Services
 - Facilities management & maintenance
 - M&E installation & maintenance
- Street Services
 - Waste collection & recycling
 - Street scene & grounds maintenance
- Plant
 - Internal & external plant hire

Key contracts

- Sheffield City Council
- Homes for Islington
- North Tyneside Council
- Stoke-on-Trent City Council
- Hull City Council
- Barnsley Metropolitan Borough Council
- Harlow District Council
- Harrow Council

Key facts

25



Offices & depots in the UK

240,000



Homes being maintained

5,781



Employees

PARTNERSHIP HOMES p26

- Mixed-tenure/affordable homes
- Private homes

Key core skills

- In-house design & planning capability
- Expertise in Code for Sustainable Homes
- Skills to integrate mixed-tenure sales
- HCA Developer Partner status
- Affordable housing specialist
- Regeneration expertise

Key facts

1,060



Total homes delivered

499



Private homes

561



Social housing

5,700



Plots in land bank

303



Employees

DEVELOPMENTS p30

- Property
 - Commercial, offices, retail, industrial, mixed-use
- Project Investment
 - Delivering private finance initiatives
- Asset Partnership Services
 - Local authority property management & development

Key projects

- Ordnance Survey HQ, Southampton
- Network Rail joint venture station developments
- Norfolk & Suffolk Police investigation centres
- Sheffield City Council non-residential property portfolio

Key facts

13



PFI schemes in portfolio

6,700



Properties serviced within Sheffield City

26



Properties/sites under development

8



Railway stations in development

101



Employees

CHIEF EXECUTIVE'S REVIEW

1. ONE INTEGRATED BUSINESS MODEL

2. OUR COMBINED STRENGTH: ONE KIER

3. HOW WE WORK: OUR VISION

ONE KIER

Our solutions to meet customers' requirements are manifested in several different business unit combinations – each of which represents one single, coordinated and consistent Kier service.

FULLY INTEGRATED SOLUTIONS

Kier has the ability to offer customers a completely integrated turnkey solution to the built environment by providing the full range of investment (property development or PFI), planning and design, construction, including M&E design and installation, infrastructure provision, building maintenance, soft and hard facilities management and regeneration, by combining the appropriate resources of our four divisions.

Key projects:

Solum Regeneration – Kier & Network Rail JV; Ordnance Survey HQ at Adanac Park – multi Kier business unit delivery through Kier Property; the Kier Project Investment PFI Norfolk & Suffolk Police investigation units; Reading Central – a Kier Property & Kier Regional delivered project.

STRATEGIC ALLIANCES

Kier combines the resources of its various business units to deliver coordinated and consistent services bespoke to key market sector customers (and the specific needs and specialisations of their sector requirements). These strategic alliances are usually delivered nationwide or regionally through framework agreements or other forms of partnering with customers.

Key alliances:

Airports, custodial, education, health, retail, leisure, power, rail, water, public services, greening & carbon reduction retrofitting.

ADDING VALUE

In partnership with customers, any part of the Kier business delivering an existing project or service is able to provide added value to customers by bringing in other parts of the Group both upstream and downstream in the property process. In this way our offering can be broadened by bringing planning, investment, general construction, housebuilding, FM and/or other resources to help a customer whose needs may change, expand or diversify.

Recent service contracts leading to value-added additional services to meet customer requirements:

Kier North Tyneside building maintenance project;
Kier Sheffield LLP with associated Kier Asset Partnership Services in Sheffield.

EVOLVING NEW SERVICES

Kier has the financial strength, the ability and the resources to adapt its offering of services to meet any customer's requirements in the built environment. Whether through acquisition or through creating and developing new areas of expertise and resources within the Group, we are proactive in providing solutions where a customer's need has been identified.

Recent examples of new Kier services:

Kier Waste – acquisition of Pure Recycling facility and waste services.
Kier Energy Innovations – retrofitting carbon reduction solutions in the built environment.
Kier Public Sector Services – bundled services to support local authorities.
Kier Compliance Services – fire, safety and environmental regulatory compliance.

3

HOW WE WORK: OUR VISION

By providing our customers with the highest possible quality of service and through sustainable, profitable growth, our vision is to be the most highly respected company in the industry. By maintaining our core values and remaining focused on improvement & delivery, our vision will become reality.

HOW Managing responsibility

Corporate governance p52

- The Code
- Board of directors
- Board evaluation
- Audit Committee
- Remuneration Committee
- Nomination Committee
- Internal control
- Relations with shareholders

Brand management

Our brand – the Kier name and reputation – is of fundamental value and has taken much time and effort from dedicated staff to establish. We are committed to protecting, nurturing and enhancing the Kier brand through the delivery of our corporate vision and values. “By maintaining our core values and remaining focused on improvement and delivery, our vision will become a reality.”

Our core values:

- Be enthusiastic, open & honest
- Be proactive, committed & safe
- Be a team
- **Be Kier**

Business ethics

www.kier.co.uk/responsibility/ethics

- Compliance with the code
- Duty to report non-compliance
- Health, safety & environmental protection
- Equal opportunity & workplace diversity
- Human rights
- Business ethics & legal compliance
- Conflicts of interest
- Improper payments
- Compliance with laws prohibiting anti-competitive activity
- Supplier relations

Integrated financial control

Our business model delivers a solid return for our shareholders. **Cash generated** from Construction & Support Services is **invested in** strategic acquisitions including property developments and private finance initiatives.

Business risks p44

- Macro-economic climate
- Contract & build
- Land & property development acquisition
- Investment
- People
- Legal & regulatory
- Health, safety & environmental
- Information technology
- Pensions
- Counterparty
- Availability of finance & bonding facilities
- Reputation

Corporate responsibility p35

- Environment & climate change
- Workplace health & safety
- Workplace employees & training
- Marketplace customers & supply chain
- Community engagement
- Considerate Constructors Scheme

WHAT Professionally delivering quality

What Kier and its constituent parts do as a business is to provide a full range of quality services to plan, invest in, build, manage, maintain and service the built environment nationwide and overseas. We build upon relationships with customers by offering our services through individual business units or a combination of businesses customised to best meet the specific requirements of each customer.

WHO Nurturing stakeholder relationships

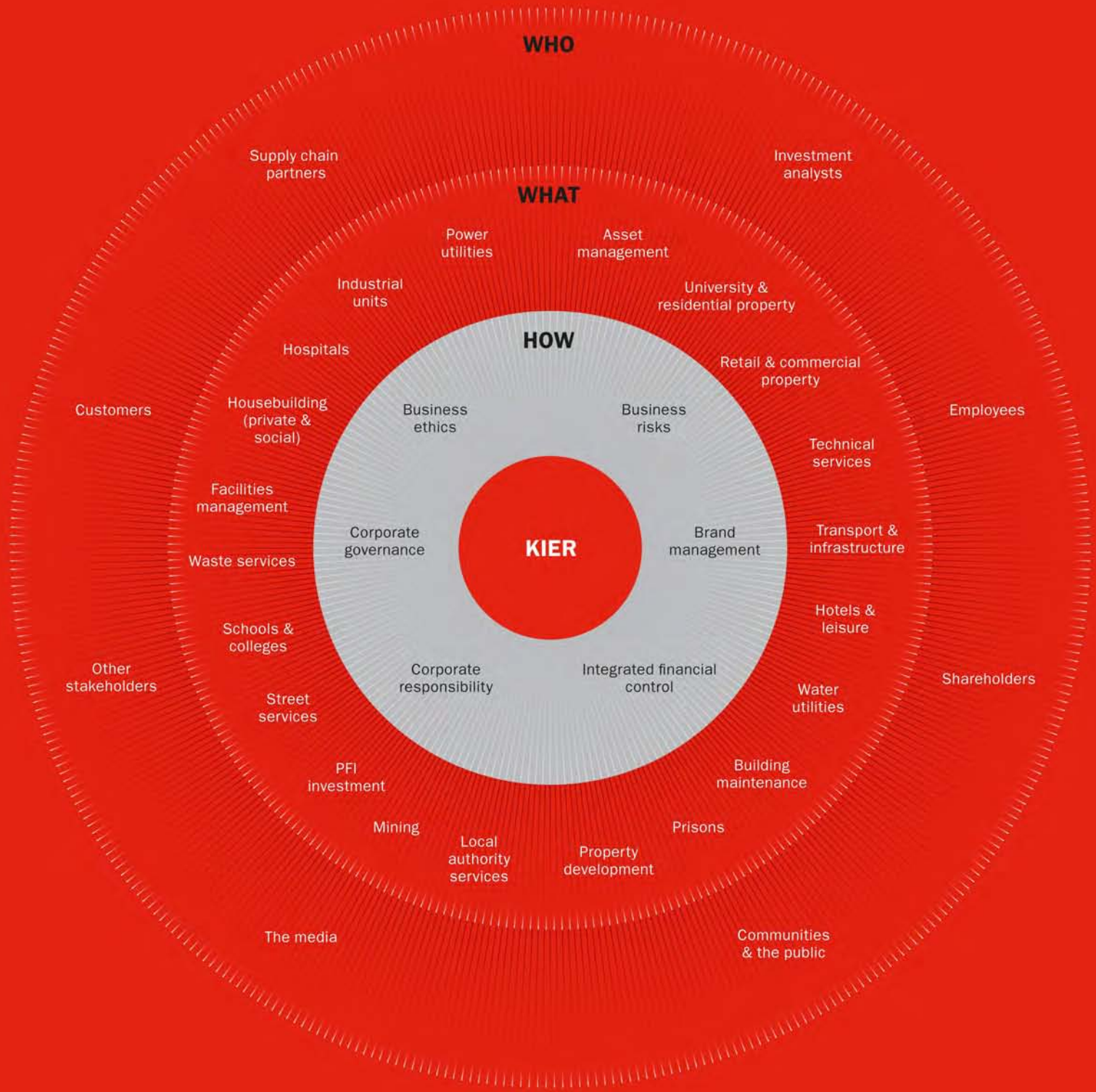
Who we work with and for is of vital importance to Kier. We value customers and aim to deliver the highest quality of services in all we do and therefore our supply chain partners, subcontractors and suppliers alike, are key to enabling us to deliver the best quality of product and service. We could not do this without our other key component in the mix of stakeholders – our employees, their quality and professionalism. Finally, all these stakeholders combine to give value to our shareholders and society at large, our broadest stakeholders – the public and the communities within which we work.

CHIEF EXECUTIVE'S REVIEW

1. ONE INTEGRATED BUSINESS MODEL

2. OUR COMBINED STRENGTH: ONE KIER

3. HOW WE WORK: OUR VISION



Chief executive's review

Continued

Key highlights

Revenue

£2,099m

(2009: £2,146m)

Profit before tax

(after the amortisation of intangible assets and before exceptional items)

£55.5m +9.7%

(2009: £50.6m)

Net cash balances

£175.2m

(2009: £92.5m)

Earnings per share

(after the amortisation of intangible assets and before exceptional items)

115.5p +17.7%

(2009: 98.1p)

Cash inflow

+£82.7m

Overview

The year to 30 June 2010 has been another successful one for the Group. Underlying profit before tax is ahead of last year, revenues are at similar levels to last year and cash generation has been very strong, closing the year at a record level.

Our integrated business model continues to provide Kier with many unique opportunities brought about by our financing and planning skills as well as our strong track record of construction delivery and client service.

Financial performance

Revenue for the year at £2,098.7m was slightly below last year's £2,145.6m. Support Services and Partnership Homes both achieved growth in revenues and in Construction UK revenue grew marginally offsetting a decline in overseas revenues as a consequence of a contraction in our overseas markets. Underlying operating profit for the Group, after the amortisation of intangible assets, was 12.8% ahead of last year at £56.5m (2009: £50.1m), again achieved from growth in Support Services together with Partnership Homes which benefited from land disposals in the year.

Exceptional items amounted to a net gain of £2.2m for the year (2009: net charge of £27.3m) as follows:

- a gain of £16.0m arising from changes announced in the recent Budget which apply to local authority pension schemes and in our particular case to the South Yorkshire Pension Fund in which employees of Kier Sheffield LLP participate;
- a £4.2m gain arising from the sale of two PFI investments; offset by
- a provision of £18.0m in respect of a fine levied by the Office of Fair Trading following its investigation into the construction industry. We have appealed against the amount of the fine.

Profit before tax for the year was 9.7% ahead of last year's at £55.5m (2009: £50.6m) after the amortisation of intangible assets and

before exceptional items and on the same basis earnings per share were 17.7% ahead at 115.5p (2009: 98.1p) benefiting in part from a 6% reduction in our effective tax rate following the agreement of certain issues with HM Revenue & Customs (HMRC) this year.

The trading result for the year was supported by strong cash generation. Overall there was an inflow of £82.7m resulting in record year-end net funds of £175.2m (2009: £92.5m), reflecting the sale of the UK Supreme Court asset which generated over £30m, together with a strong cash performance from the Construction division and a further unwinding of our cash investment in the Partnership Homes division.

Group structure and strategic developments

Our integrated business model is supported by four divisions: Construction, Support Services, Partnership Homes and Developments. The Group's management structure and segmental analysis for reporting purposes are based on these four divisions.

Our strategy is to continue to focus on growth areas in each of our divisions, enhanced by the many opportunities that arise through our integrated model. By drawing on our strong relationships with both private and public sector clients, Kier is able to offer integrated property solutions through the provision of a range of services including investment, planning and design, construction, infrastructure provision, building maintenance, soft and hard facilities management and regeneration; combined services which few other single organisations are equipped to offer.

Our Developments team, which includes financial and planning expertise, is a key catalyst for generating integrated opportunities across the Group. Its relationships with local authorities continue to provide the Group with the potential to consolidate and develop council-owned properties for the benefit of both clients and Kier. The division will require more cash investment in the short-term



Chief executive Paul Sheffield provides quarterly video webcasts discussing the Group's performance. These are available on our website. www.kier.co.uk »



1. Sainsbury Laboratory Complex,
Cambridge

Kier Build

Pictured: Kier Group chief executive Paul Sheffield on site at the University of Cambridge's Sainsbury Laboratory with Kier Build operations director Louisa Finlay (left) and project manager Nick Mann (right).

as opportunities for further development arise. However, we will continue our strategy of pursuing largely non-speculative development by ensuring we secure pre-lets or pre-sales prior to the commencement of construction.

In Construction, conditions remain challenging, principally as a consequence of financial restrictions on our public sector clients. However our strong and diverse business model enables us to pursue a range of opportunities, particularly those in areas of non-discretionary investment, such as:

- power, where we are market leader in the provision of civil engineering works;
- utilities; and
- waste, a strong and growing market including recycling and power generating opportunities.

Other growth areas include:

- retail;
- rail, including opportunities arising out of Crossrail;
- international projects, where we are rebuilding our business from a low base in Saudi Arabia, Abu Dhabi and Hong Kong; and
- mixed-use developments, across all Kier divisions.

In Support Services, where we anticipate achieving annual revenues in excess of £500m by 2012, the economic environment in which we find ourselves is providing opportunities for our business, particularly in outsourcing contracts. Our bidding teams are busier than ever helping our local authority partners to address the budgetary

pressures which they are facing by providing innovative funding and development solutions and assisting them in their desire to bundle several services into one contract.

The last few years have seen our housing business refocus more heavily on social and affordable housing provision. Kier Partnership Homes has the capability, through its relationships with public sector bodies and housing associations, to deliver social and mixed-tenure dwellings across the country. Whilst its origins were in private development, as a result of which the land bank contains around 5,700 plots, the selling and marketing skills required for mixed-use development combine well with our ability to identify innovative planning as well as financing solutions to deliver these developments. The opportunities arising out of our position on the Homes and Communities Agency (HCA) delivery partner panel should also yield further substantial regeneration prospects. The restructured model is likely to provide annual revenues in the medium-term of around £300m at blended operating margins of around 7% and a lower working capital requirement than is necessary for a pure private housebuilding business. In the meantime our land bank is a valuable asset, becoming more so as planning restrictions bite further, which we will develop or sell over time in order to unlock our cash investment.

Construction



Steve Bowcott,
Executive director, Construction

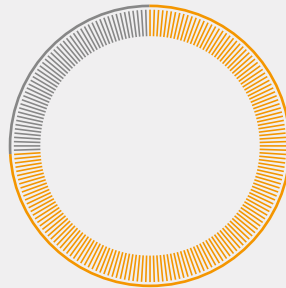
“With a good quality order book, largely based upon a wide range of well-established public and private sector framework agreements, our Construction division is robust and well placed to maximise opportunities in areas we believe expenditure will continue, particularly in the energy and infrastructure sectors, mixed-use and retail spend. We are also successfully expanding our presence in the Middle East and Hong Kong for further opportunities.”

Construction contract awards

74% Public sector

26% Private sector

(2009: 56% Public, 44% Private)



Key figures

65%

of 2010 contracts awarded through private and public sector frameworks

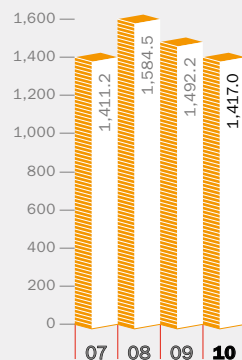
98%

of targeted revenue for 2011 secured

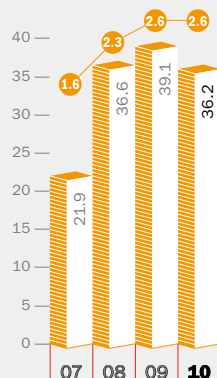
Highlights

- Order books stable at £2.1bn
- 65% of awards sourced through frameworks
- Hong Kong: £125m tunnelling contract awarded in joint venture
- Power sector: £6bn of opportunities over the next ten years

Revenue (£m)

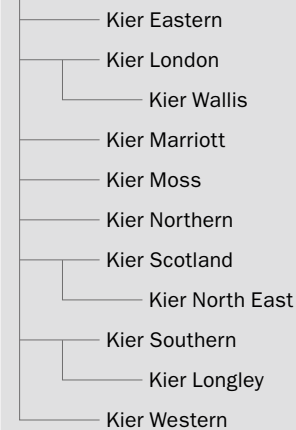


Operating profit (£m) % Operating margin (before exceptional items)



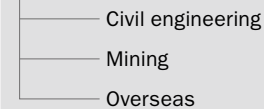
Division structure

REGIONAL CONTRACTING Kier Regional

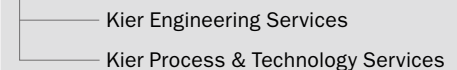


MAJOR PROJECTS Kier Build

INFRASTRUCTURE & OVERSEAS Kier Construction



TECHNICAL SERVICES Kier Technical Services





West Burton power station
Kier Construction

Pictured left to right: health & safety advisor John Adams and trainee construction engineer Kieran Standing. Kier Construction has used its in-house design capability at the £100m West Burton project to provide civil engineering works for a 1,300MW combined cycle gas turbine (CCGT) power station. This represents the 14th major CCGT power station delivered in the last 14 years.

Construction

Continued

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



1. Bottling plant, Glenmorangie, Livingston, value £12.8m
Kier Scotland
Site manager Ronald McNally at Kier Scotland's project in Livingston where the business is constructing a new bottling complex and office for The Glenmorangie Company.

2. Greenburn Mine, East Ayrshire
Kier Construction
Kier Mining owns and operates the Greenburn surface coal mine in East Ayrshire, Scotland. To date this mine has produced in excess of 3.8m tonnes of coal since we began production in 2004.



Overall revenue for the division was 5% below last year's, as expected, at £1,417.0m (2009: £1,492.2m) with marginal growth in our UK revenues offset by a decline in revenue from overseas operations, particularly those in Dubai and Romania. Operating profit declined marginally to £36.2m from £39.1m, at a strong margin, similar to last year's, of 2.6% (2009: 2.6%). The good margin performance was underpinned by excellent cash generation with year-end cash balances at a record £417.8m (2009: £399.7m) after deducting tax and intra-group dividends. Contract awards were marginally higher than last year with 65% arising from our numerous private and public sector frameworks. These awards have provided us with a secured order book of signed contracts amounting to £1,320m (2009: £1,190m), together with £723m of probable awards, comprising contracts on which we are preferred bidder or are in one-to-one negotiations (2009: £1,055m).

Seventy-four per cent of our awards in the year were for public sector projects, many of them in the education sector which accounted for 41% of awards. The Contractors' Framework for Academies has provided us with 19 schemes comprising 42 schools with a value of over £800m including the first academy on this framework at Milton Keynes, which opened for the new term in September 2009. Twenty of the schools are currently on site, most of which are expected to complete during the next financial year. The remaining schools, valued at £330m, are at preferred bidder stage and have been given the go-ahead by the education secretary. We have also successfully secured our place on the second Academies Framework on which we are preferred bidder on one sample scheme and are shortlisted on three with a potential value in excess of £100m.

In health, which represents 7% of our awards during the year to 30 June 2010, the ProCure 21



1. King's Cross railway station roof, London, value £27m
Kier Construction
 Construction manager Nick Tindell pictured inspecting the condition of the steel at King's Cross station roof where Kier Construction is erecting a bespoke access deck system for client Network Rail.

Framework has entered its seventh and final year, having provided us with 90 projects over that period valued at around £500m. Projects with a value of £55m have been awarded in the year, including major A&E schemes at Whipps Cross and Lewisham Hospitals. We were pleased to have recently been announced as one of six contractors on the new ProCure 21+ health projects framework which could be worth up to £4.5bn over the next six years.

The Custodial Framework with the Ministry of Justice continues to provide good opportunities and represented around 23% of our awards in the year. Currently we are involved with 13 projects providing 386 additional cells in addition to the 1,620 new cells at HMP Featherstone, a £180m project which commenced in October 2009. This framework has now been extended to 2012.

In the private sector, retail opportunities are beginning to pick up. We have been awarded five projects for Sainsbury's, including a £25m project in Newport which is providing both building and civil engineering work for our teams. Our other key clients in this sector include Hermes, British Land and Wm Morrison.

In the water sector, as part of a joint venture,

2010 has seen an extension to our framework with United Utilities under AMP5, to which approximately £400m of work has been allocated in the five years to 2015. In addition, outside the framework, we were successful in winning Preston UID which, at £72m, is the largest single contract let by United Utilities this year. In rail, the five-year structures framework for Network Rail in East Anglia has successfully completed its fifth year.

In total we are active on over 50 frameworks across the UK through which clients are still procuring a significant element of their work with a focus on quality and whole life-cycle costs.

We have been successful in gaining entry onto the civil engineering, demolition and enabling frameworks for Crossrail, having won our first project at Whitechapel and we are tendering, in joint venture, for the forthcoming major tunnelling and civil engineering work. Our activities in the nuclear market are ongoing at Sellafield, Aldermaston and Chapelcross and our 14th major Combined Cycle Gas Turbine (CCGT) power station at West Burton for EDF Energy (EDF) is progressing well. At our opencast coal mine at Greenburn, East Ayrshire, we have now extracted 3.8m tonnes of coal since we



began production in 2004 and have recently been awarded planning consent on an adjacent site which increases our reserves and takes coal production to beyond 2016.

Overseas we have seen our revenues fall to their lowest level for some considerable time, caused by the global economic crisis. As yet we have seen no recovery in the market in Dubai; our existing infrastructure contracts have been brought to a successful conclusion with cash receipts, whilst delayed, continuing to flow. Our attention has now turned to other areas in the Middle East where we are seeing growing opportunities such as Saudi Arabia, where we have completed the first year of an eight-year phosphate mining contract, and Abu Dhabi and Qatar. We are also re-establishing our presence in Hong Kong where we have recently been awarded a £125m tunnelling contract, in joint venture, for one of our long-established clients, the Mass Transit Railway Corporation.

Construction markets and outlook

There is no doubt that cuts to public sector expenditure will have an impact on the construction market over the next few years. We have already witnessed the fall-out from the Building Schools for the Future programme, which has affected all contractors involved in the programme, although it has had little impact on Kier's order books. We await the October Spending Review to assess the impact across our other markets. However, Kier is in good shape; we enter the new financial year with a strong order

book and a healthy pipeline of probable awards which, together, secure around 98% of our targeted revenues for 2011 and 45% of our target for 2012.

Our focus over the short-term is to maximise our opportunities in areas where we believe expenditure will continue. Energy is a key sector for us and one which we believe will grow significantly over the next five to ten years. With our strong track record in this sector, having delivered the civil engineering works on over 33% of all CCGT power stations built in the UK over the last 19 years, we are in a strong position to maintain and even grow our market share. Our current relationship with EDF, for whom we are working at the West Burton CCGT power station, positions us well to help them deliver their planned nuclear programme. Having been awarded a small advanced works package we are currently bidding, in joint venture, for a range of contracts for EDF at Hinkley, totalling in excess of £1bn. These projects, together with other nuclear, gas, renewables, coal and waste to energy projects could provide us with over £6bn of opportunities over the next ten years.

Other key areas include Crossrail, mixed-use opportunities across the Group, utilities, waste and, importantly, overseas projects.

Significantly, we are beginning to see signs of recovery in the commercial property market, both through our own Developments business and through our long-standing client base.

1. Diamond Light Source, Oxfordshire
Kier Moss & Kier Facilities Services
Kier Moss is at the cutting edge of science with its construction of a hugely significant scientific building to house a beamline at the Diamond Light Source synchrotron in Oxfordshire. Kier Facilities Services will provide mechanical, electrical and building fabric maintenance services.

Construction cash balances

£417.8m

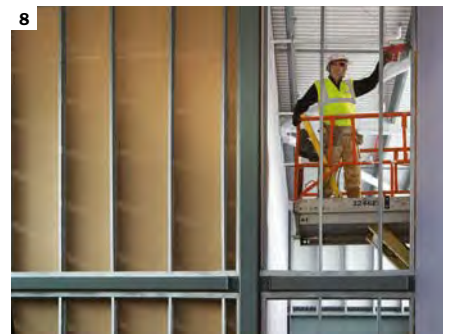
(2009: £399.7m)

Construction secured & probable order books

£2,043m

(2009: £2,245m)

Key projects in progress



1. Featherstone Prison, Wolverhampton, value £186m
Kier Build

Senior section managers Alasdair Adam (left) and Matt Billard pictured on site at Kier Build's 1,620-place Featherstone Prison project.

2. Welland Court, Nottingham
Kier Marriott

Kier Partnership Homes is working with Kier Marriott to create 71 homes to replace the existing 34 flats at Welland Court, Nottingham.

3. Lysander House, Tempsford
Kier Engineering Services

Design engineer Alistair Ringer (pictured left) and senior technician John Freeman from Kier Engineering Services. The Company is behind many of the Group's engineering successes, providing innovative design and temporary works solutions.

4. Ipswich Hospital, Ipswich, value £21m
Kier Eastern

Subcontractor Tom O'Brien pictured on site at Ipswich Hospital where Kier Eastern has started work on five new mental healthcare wards as part of a major mental healthcare development.

5. Snow Hill, Birmingham, value £66m
Kier Build

Kier Build was appointed by Ballymore Properties to construct this landmark commercial building at the heart of the Snow Hill development in Birmingham.

6. Brighton Aldridge Community Academy, Falmer, value £26m
Kier Longley

Construction of the new academy school in Falmer comprises a two-storey, reinforced concrete, in situ frame clad with green and ballasted roofs.

7. Fairway & Northway Schools, Barnet
Kier London

The new school building is the seventh First Class Schools building project to be undertaken by Kier London on behalf of the London Borough of Barnet.

8. St Anthony's School, Rutherglen
Kier Scotland

Subcontractor Andy McLean is working at Kier Scotland's St Anthony's Primary School project, which includes the demolition of the existing primary school and construction of a new two-storey, nine-classroom primary school.

9. Warren Wood Community School, Gainsborough
Kier Northern

Kier Northern is working on a new special educational needs primary school in Gainsborough for 96 pupils aged between two and 11.

Support Services



Ian Lawson,
Executive director, Support Services

“Strengthened by several large local authority building maintenance contracts, and successfully renewing other existing contracts, this division is well positioned to assist local authorities and other public sector clients as they come under budgetary pressures. We help them improve efficiencies in their current services provision and maximise value from their existing assets through our ability to bundle a variety of services including responsive and planned grounds maintenance, facilities management, street cleaning and waste collection and recycling.”

Business revenue

Building Maintenance

£344m

(2009: £329m)

Street Services

£20m

(2009: £20m)

Facilities Services

£120m

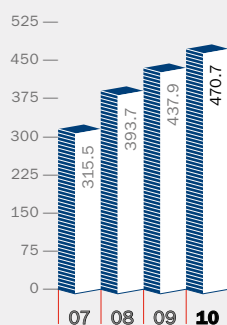
(2009: £93m)

Plant

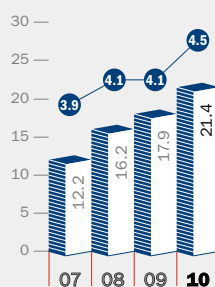
£29m

(2009: £30m)

Revenue (£m)



Operating profit (£m) % Operating margin (before amortisation of intangible assets)



Highlights

New contract starts

- North Tyneside building maintenance £60m p.a. for 10 years (+ 5 years)
- Southwark building maintenance £3m p.a. for 7 years
- Barnsley building maintenance £11m p.a. for 5 years (+ 5 years)

Contract renewal

- London Borough of Islington (Homes for Islington) £20m p.a. for 4 years (+ 6 years)

Acquisition of new business

- Pure Recycling facility in Warwickshire

Division structure

Kier Support Services



Kier Street Services

Grounds maintenance operative Chris Gibbard works for Kier Street Services' grounds maintenance unit. The Company is fully equipped and trained in the maintenance of sports pitches, recreational areas, cemeteries and highways land.



Support Services

Continued

Support Services comprises four business streams: Kier Building Maintenance, which provides both reactive and planned maintenance, largely to local authorities; Kier Facilities Services, providing facilities management as well as mechanical and electrical services maintenance to public and private sector clients; Kier Street Services, providing services for domestic and commercial waste collection and the management and operation of a recycling facility, street scene and grounds maintenance; and Kier Plant, which hires construction plant to Group companies and external clients.

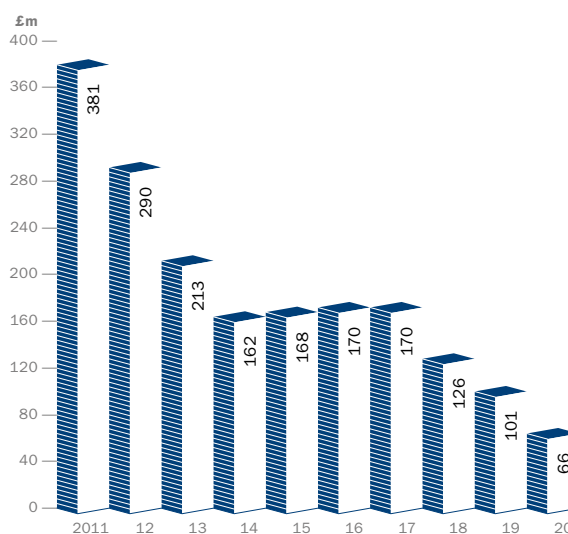
Revenue in Support Services rose 7.5% to £470.7m (2009: £437.9m). Operating profit, before deducting the amortisation of intangibles of £2.9m, increased by 19.6% to £21.4m (2009: £17.9m) with strong growth in the operating margin to 4.5% (2009: 4.1%). Cash balances were high at £32.3m (2009: £36.7m) after investing £5.4m in the newly acquired waste recycling business and £3.4m in the new North Tyneside contract. The order books are at a healthy £2,128m at 30 June 2010 (2009: £2,292m).

Kier Building Maintenance saw revenues increase by 4.5% in the year to £343.8m (2009: £329.1m). Our £600m partnership with North Tyneside Council to repair and maintain its social housing stock and other council-owned property commenced in September 2009 and is progressing well. The initial ten-year contract is extendable for a further five years and could take the value to £900m in total. In October 2009 we commenced a £21m, seven-year, Decent Homes contract with the London Borough of Southwark, which is also progressing well.

A further major new contract, which commenced in April 2010, was for Barnsley Metropolitan Borough Council. This £11m per annum contract delivers housing repairs, planned maintenance and improvement and environmental work for 9,000 dwellings over a five-year period, extendable for a further five years.

Some of our older contracts are now coming to an end and are set for renewal. It is vital to us that our track record of service delivery, our innovative partnership arrangements and the efficiency measures that we have put in place on these contracts are properly recognised in the renewal process. Therefore we were delighted to have been awarded two contracts at Islington, where we have been repairing and maintaining the Borough's housing stock since 2000 when we joined forces with Islington Borough Council in one of the first

Support Services secured forward revenue (£m)



public/private partnerships of its kind in the country. These contracts are for Homes for Islington, the arm's length management organisation for Islington Council, valued at £20m per annum for four years, extendable for up to ten years.

We currently maintain over 240,000 homes, placing us, we believe, amongst the top five providers of building maintenance services in the UK.

Kier Facilities Services generated £119.6m of revenue in the year (2009: £92.9m) with growth resulting from new contracts including the £6m per annum cleaning contract for Sheffield City Council, secured last year through Kier Asset Partnership Services.

Our Street Services division successfully completed the acquisition of Pure Recycling during the year, a business which is well advanced in developing an automated materials recycling plant located in Ettington, Warwickshire. This acquisition

Support Services secured order books

£2,128m

(2009: £2,292m)

Support Services cash balances

£32.3m

(2009: £36.7m)

Key projects in progress



1. Ordnance Survey, Southampton, value £41.8m
Kier Facilities Services & Kier Southern
 Kier Building Services Engineers, a division of Kier Facilities Services, is in the process of installing the mechanical and electrical services for the new headquarters building of Ordnance Survey in Southampton.

3. Kier Harlow
Kier Building Maintenance
 Since February 2007, Kier Harlow has provided repairs & maintenance for social housing & environmental services. Pictured, Kier Harlow gardener Scott Tait.

5. Greater Manchester Police HQ
Kier Facilities Services & Kier Northern
 Kier Building Services Engineers' subcontractors Charles Wilshaw (left) and Raymond Wilshaw are currently on site at the 200,000sq ft flagship headquarters building of Greater Manchester Police.

2. Kobelco CE700 70-tonne crawler crane
Kier Plant
 The wide range of equipment available for hire by Kier Plant from six depots around the UK includes a large fleet of tower and crawler cranes.

4. Rutherford Appleton Laboratory, Didcot
Kier Facilities Services & Kier Moss
 Both companies are working together on the building, civils, electrical and mechanical project works at Rutherford Appleton Laboratory.

6. Roman Pavement, Lincoln
Kier Building Maintenance
 Pictured, subcontractor Tom Smith (left) and project manager Richard Surfleet. Kier Building Maintenance is carrying out stabilisation works to circa 140 properties at Roman Pavement, Lincoln.

will enable us to compete for a broader range of waste collection and recycling contracts.

Kier Plant has had a challenging year, but nevertheless has remained profitable and has continued to invest, selectively, in plant and equipment during the year.

Support Services markets and outlook

Inevitably all local authorities will come under budgetary pressures over the next few years. We are confident we will play a major part in helping them to improve efficiencies in their current services provision as well as identifying opportunities for them to maximise value from their existing assets, including development opportunities, a role which we are uniquely placed to perform. We are already approaching a number of our local authority partners to help them in this regard, including:

- North Tyneside Council where, through our partnership, we are in discussions to broaden our range of activities to include both development and waste management opportunities; and
- Sheffield City Council, where we are combining the skills of our existing contract teams to provide an integrated service comprising property management, funding, development, construction, housing maintenance, street cleansing and recycling.

There is a strong pipeline of new contracts for which we are, or will be, bidding totalling around £3bn. This includes contracts for the London Borough of Hounslow, the London Borough of Tower Hamlets and Lewisham Housing all with, at least, a five-year duration and options to extend.

Partnership Homes



Ian Lawson,
Executive director, Partnership Homes

“Having successfully refocused our house building business more heavily on affordable housing provision, our Partnership Homes division is now building upon its relationships with local authorities, housing associations and the Homes and Communities Agency to deliver innovative and environmentally sustainable mixed-tenure dwellings across the country, specialising both in urban regeneration and rural development.”

<p>Homes delivered</p> <p>1,060 (2009: 1,141)</p>	<p>Revenue (£m) (including land sales)</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Revenue (£m)</th> </tr> </thead> <tbody> <tr> <td>08</td> <td>312</td> </tr> <tr> <td>09</td> <td>151</td> </tr> <tr> <td>10</td> <td>158</td> </tr> </tbody> </table>	Year	Revenue (£m)	08	312	09	151	10	158	<p>Land bank (book value)</p> <p>£214m (2009: £230m)</p> <hr/> <p>Land bank (units) with planning consent</p> <p>5,700 (2009: 6,150)</p>
Year	Revenue (£m)									
08	312									
09	151									
10	158									
<p>Private sales</p> <p>47% (2009: 41%)</p> <p>Social sales</p> <p>53% (2009: 59%)</p>	<p>Operating profit (£m) (including land sales and before exceptional items)</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Operating profit (£m)</th> </tr> </thead> <tbody> <tr> <td>08</td> <td>32.2</td> </tr> <tr> <td>09</td> <td>1.1</td> </tr> <tr> <td>10</td> <td>9.9</td> </tr> </tbody> </table>	Year	Operating profit (£m)	08	32.2	09	1.1	10	9.9	<p>Adding value</p> <ul style="list-style-type: none"> • Land transactions • Homes & Communities Agency delivery partner • PFI opportunities include Woking PFI (short-listed) • A designated partner on 29 frameworks for Registered Affordable Housing Providers across the country
Year	Operating profit (£m)									
08	32.2									
09	1.1									
10	9.9									



Avoca, Little Paxton
Kier Partnership Homes

Project manager Martin Harvey is working on this 204-unit development in Cambridgeshire for Kier Partnership Homes. The site has 62 affordable housing units and 142 for private sale.

Partnership Homes

Continued

Kier Partnership Homes is a leading provider of mixed-tenure affordable housing, specialising in urban regeneration and rural development operating nationally throughout Scotland and England. It has the skills and experience to deliver innovative and environmentally sustainable construction and finance solutions.

Market conditions continued to be challenging for our Partnership Homes business during the year. We have seen little improvement in the availability of mortgage finance, which has continued to impact on our private development sales whilst planning and public sector funding issues have adversely influenced our social housing unit sales. Overall we completed 1,060 units this year (2009: 1,141) albeit with a slight change of mix, with 499 arising from private development sales and 561 through affordable housing sales (2009: 467 private and 674 affordable homes). These unit sales, together with land sales, generated revenues of £157.7m (2009: £150.8m). Operating profits grew from £1.1m in 2009 to £9.9m in 2010 and include healthy profits from land transactions in the period including the transfer of strategic land assets to the Kier Group Pension Scheme to settle a special contribution to the scheme by the Group.

Our cash investment in this division continues to reduce as our land and work-in-progress levels fall in line with our strategy and we generated £16.4m of cash during the year. Our land bank at 30 June 2010 is carried at a value of £214m (June 2009: £230m), after previous years' write-downs, represented by 5,700 plots (2009: 6,150 plots), all with planning consent. This land bank provides us with opportunities to create value either by developing units or selling them as appropriate. We have made some land disposals during the year to 30 June 2010 and are seeing signs of further activity in the market which may well result in further land disposals during the new financial year. The average plot cost remains at around £37,000 with wide variations in values depending upon location and the type of land (greenfield or brownfield) held in the land bank.

We were delighted to have been selected as a member of the Delivery Partner Panel by the HCA that will be used to develop new affordable and private housing on public sector sites across England. We are also a designated partner on 29 frameworks for Registered Affordable Housing Providers across the country, which will provide a strong platform for establishing our position as a specialist provider of mixed-tenure affordable housing.

Kier Partnership Homes has recently completed a flagship scheme for Bournville Village Trust in Lower Shenley, Birmingham, which involved the construction of 167 houses for rent and shared ownership. We were also recently awarded a contract for a Municipal Housing Trust scheme for Birmingham City Council which will involve the construction of 58 dwellings for Birmingham Municipal Housing Trust. Twenty homes will be retained as affordable housing and 38 will be sold on the open market.

Partnership Homes market and outlook

Our strategy is to continue to reduce our cash investment in this division by developing our existing land bank for homes for sale, or disposing of parts of it as the land market recovers. Our focus is increasingly towards the development of mixed-tenure affordable housing where our skills in marketing and selling private homes combine effectively with our well-established relationships with local authorities and housing associations in order to deliver this type of development.

The market for new homes remains fragile, largely as a consequence of a scarcity of mortgage finance, particularly for first-time buyers, coupled with uncertainty over job security. However, visitor levels have been steady over the last six months.

Partnership Homes cash generated

£16.4m

Partnership Homes operating margin

(including land sales and before exceptional items)

6.3%

(2009: 0.7%)

Key projects in progress



1. Belvidere Village, Glasgow

The £64.5m Kier Partnership Homes development is a mixture of standard product and bespoke design.

2. Windmill Estate, Fulbourn

Kier Partnership Homes was selected by housing association Accent Nene to redevelop the Windmill Estate in Fulbourn. The contract is valued at £28m and includes the provision of up to 273 new homes for rent, shared ownership and outright sale over a four-phase programme.

3. Shenley Lane, Birmingham

All the homes at the Shenley Lane development will be constructed to the Code for Sustainable Homes level 3 environmental standard.

4. Hawkhead Village, Paisley, Renfrewshire

This development in Paisley comprises 195 new build units for sale including two-storey terrace villas and cottage flats, three-storey terrace townhouses and flats, and executive detached villas.

5. Millbrook Road, Orpington

Finishing foreman Arturas Skinulas (left) and site manager Baljeet Bhelay on site at Kier's Millbrook Road scheme, which comprises 40 flats for shared ownership and private rent.

6. Rectory Gate, Bluntisham

Kier Partnership Homes' development of two, three, four and five-bedroom homes at Rectory Gate, Bluntisham has proved to be very popular with buyers.

We have been selling from a smaller number of sites over the past six months than in the previous six-month period and, indeed, a lower number than we would like. Detailed planning restrictions and negotiations over Section 106 agreements, together with a slow start on some of our sites means that the number of our outlets will not increase meaningfully until the second half of the new financial year. We therefore expect overall sales for the year to 30 June 2011 to be second-half biased.

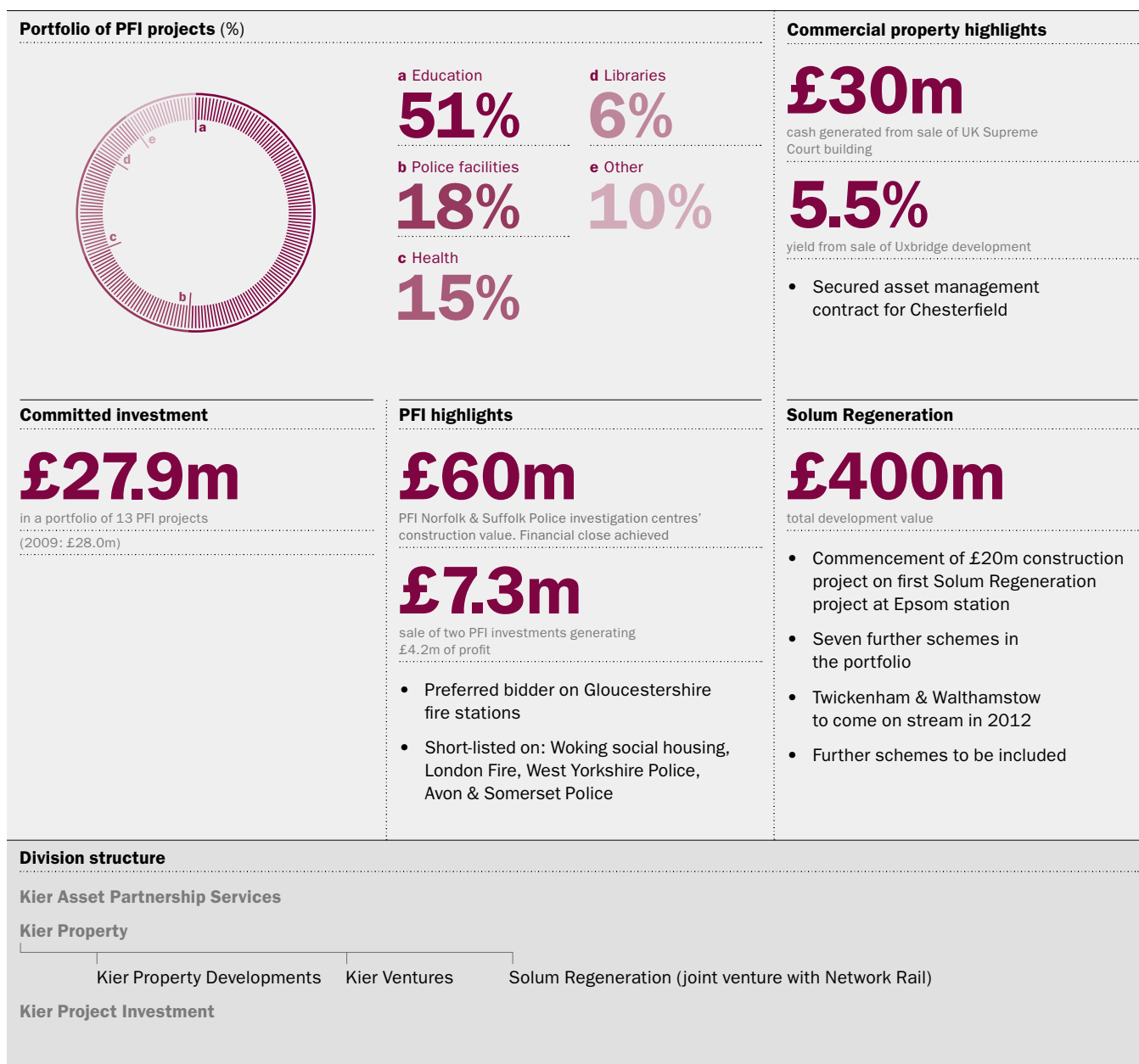
Whilst public sector grant funding continues to be an issue, we have seen increasing interest from private investment bodies and financial institutions who are interested in the long-term investment potential of new housing using an intermediate rental model. We are also working closely with a number of Registered Affordable Housing Providers to optimise our existing land portfolio, which has the benefit of planning permission. We remain flexible and adaptable to the rapidly changing housing environment and the opportunities that it presents.

Developments



Dick Simkin,
Executive director, Developments

“Our highly experienced Developments team, through the combination of its property development, PFI investment and asset management business streams, offers significant opportunities for us to work with local government and other bodies to tailor innovative property solutions and services to help them maximise their asset values, often by bringing in the resources and expertise of other Group businesses.”



**Epsom station, Solum Regeneration
Kier Property**

Kier Property was selected by Network Rail to form a joint venture to regenerate a number of railway stations in the south-east of England in a project which has a total development value of £400m. In April 2010 we secured planning permission at Epsom for a mixed scheme comprising a pre-let hotel, retail and housing on which Kier has now commenced construction, valued at £20m.



Developments

Continued

Our Developments division comprises Kier Property, which includes office, industrial, retail and mixed-use development both directly and through joint ventures; Kier Project Investment (KPI) our PFI business; and Kier Asset Partnership Services (KAPS), which provides a comprehensive suite of asset management services from strategy through to operational property management for local authorities.

Revenue for the year to 30 June 2010 of £53.3m (2009: £64.7m) was 17.6% below last year reflecting a low level of development sales mitigated, in part, by land disposals to the Kier Group Pension Scheme, together with revenue arising from our share of the Kent BSF project. Operating profit was £0.3m (2009: loss of £1.9m) and included profits arising on the land disposals to the Kier Group Pension Scheme but also reflected bidding costs within our PFI business, together with an element of cost associated with writing off our interest in the Kent BSF project following the cancellation of some of our schools.

During September 2009 we successfully completed the sale of the UK Supreme Court investment to Prupim, generating in excess of £30m of cash at an exit yield of around 5% on the post-tax disposal proceeds. At our former gasworks site at Uxbridge, remediated by Kier Construction, we completed a new warehouse for AGS, an international storage and removals company. Also on that site Kier has now completed the construction of a Driving Test Centre on behalf of the Driving Standards Agency which was forward-sold at a yield of 5.5%.

Our record of securing significant pre-let development opportunities continues. In December 2009 we signed an agreement for lease with the University of Reading for a 55,000sq ft enterprise centre which was forward-sold in January 2010. Kier is carrying out the construction, with completion due in early 2011. In Southampton we will shortly complete a 175,000sq ft head office for Ordnance Survey. This will then see the release of the existing 25-acre site from Ordnance Survey to Kier Property for mixed-use development.

At Newcastle-under-Lyme we secured HCA funding for a housing development on one of our brown-field sites. Seventy-two units are for social housing which have been forward-sold to Aspire Housing, a Registered Social Landlord, with eight units for private sale. Construction, by Kier Partnership Homes, began in February 2010 with completion

expected in the summer of 2011. We continue to make good progress with Solum Regeneration, our joint venture with Network Rail. In April 2010 we secured planning permission at Epsom for a mixed scheme comprising a pre-let hotel, retail and housing on which Kier has now commenced construction. Seven other station sites are included in the joint venture, of which Walthamstow and Twickenham are expected to be the next developments to commence. The total development value of the current portfolio is expected to amount to around £400m with new sites being added to the joint venture; a testament to the strength of the partnership we have established with Network Rail.

In KPI, our PFI business, we have seen the completion, by Kier, of the construction of the three PFI secondary schools in the initial phase of the Kent BSF project, which now means that 11 of our current 13 investments are operational. In February 2010 we achieved financial close on the Norfolk and Suffolk Police Investigation Centres scheme with a capital value of £60m. Kier is the contractor on the scheme with work well advanced on the six sites. Completion of the final facility is expected in October 2011.

In April 2010, a Kier-led consortium was announced preferred bidder on the £22m Gloucester Fire project. Financial close is expected in December 2010. In addition, we are shortlisted in a number of bids, including Woking Housing, London Fire, West Yorkshire Police and Avon & Somerset Police.

During the year we continued with our strategy of selectively disposing of mature PFI investments from our portfolio. We disposed of two of our investments, Waltham and Tendring Schools, for a combined cash consideration of £7.3m representing a valuation discount rate of around 8%. This sale has resulted in an exceptional gain of £4.2m. Kier Facilities Services continues to act as facilities manager on both of these contracts.

Our portfolio of PFI projects following these disposals now totals 13 including the Gloucester Fire project now at preferred bidder stage. Our

full equity investment in these schemes stands at £27.9m (2009: £28.0m) of which £16.0m has been invested to date. The directors' valuation of our investment of £27.9m at a discount rate of 7.5% is £49.1m.

The KAPS business is specifically focused on assisting local authorities and other public bodies to maximise the benefit from their assets and reduce the operational costs of large property portfolios. In our partnership with Sheffield City Council significant progress has been made by KAPS during the first 12 months of our contract resulting in over £1m of cost savings for the Council. In addition to the day-to-day delivery of services the team has developed a new Corporate Asset Management Plan which details an effective strategy and action plan for the management of the Council's considerable land and building assets over the next decade.

Developments markets and outlook

We are encouraged by interest that is beginning to emerge from investors, particularly from the Far East, who are keen to take advantage of our product range and our approach to development through pre-let, low risk schemes. We will continue to establish long-term partnerships with local authorities and other bodies, such as those established with Network Rail and Sheffield City Council, in order to maximise the value of their property assets.

Given our in-house skills we are well placed to take a leading role in working closely with local government and other bodies to tailor innovative property solutions to meet their requirements. The well publicised spending cutbacks will require new approaches to the provision of services by local councils and we are providing significant support to proposals which will help them maximise their asset values and achieve significant cost savings. The announcement of preferred bidder status with Chesterfield Borough Council to deliver property and engineering services in a ten-year partnership serves to endorse this approach. By building upon our work with Sheffield and Chesterfield Councils we have expanded our property development activities in the north of England, working closely with Construction, Partnership Homes and Support Services to maximise opportunities for the Group.

More generally we are encouraged by the continued level of occupier demand for our sites across the country, which reflects well on our strategy of only acquiring well located sites.

Key projects in progress



1. Lower Milehouse Lane, Newcastle-under-Lyme
Kier Property
 Kier Property & Kier Partnership Homes are presently developing and constructing 72 social housing homes and eight private houses in Newcastle-Under-Lyme, Staffordshire.
2. Ordnance Survey, Southampton, construction value £41.8m
Kier Property & Kier Regional
 The project at Adanac Park is a prime example of Kier Property dovetailing with the Group's relevant services to offer a fully integrated package. The all-Kier team includes the Construction and Support Services divisions.
3. Reading University, construction value £18.5m
Kier Property & Kier Moss
 Working in partnership with the University of Reading, Kier Property & Kier Moss are presently developing and constructing a new Science and Enterprise Centre on the Whiteknights campus.
4. Norfolk & Suffolk Constabularies, construction value £60m
Kier Project Investment
 Kier Project Investment reached financial close in February 2010 on a project to deliver six custody facilities for Norfolk & Suffolk Police authorities.
5. Sheffield City Council
Kier Asset Partnership Services
 KAPS provides a wide range of property and FM services on behalf of Sheffield City Council, which selected Kier to replace the Council's functions of corporate property management and FM service staff.
6. Twickenham
Solum Regeneration
 Initially eight sites at Enfield, Maidstone East, Epsom, Twickenham, Walthamstow, Wembley, West Brompton and Guildford have been allocated to the Solum Regeneration contract and will form the anchor of this ten-year venture.

Chief executive's review

Continued



Health & safety

During the year we have focused on health & safety leadership and our Behavioural Safety Leadership Programme is now firmly embedded within the Construction division. This programme focuses on encouraging active discussion within the workforce on safety specific issues and we have recorded in excess of 24,000 such conversations this year.

Our focus will now encompass both health and environmental issues to ensure that we support fully the Group's sustainability aspirations. Our health programme is paying dividends with the current roadshow addressing noise and vibration issues. A long-term programme of health and well-being is being developed across the business to ensure that health is an integral part of the Safety, Health and Environment culture.

The commitment of our management and our supply chain partners has ensured that our Accident Incidence Rate has improved by 23% from 404 in June 2009 to 312 in June 2010 against a Health and Safety Executive (HSE) benchmark of 782.

People

The year to 30 June 2010 has been a busy and challenging one for the Group and it is only with the commitment, skill and professionalism of all our employees that we have achieved another year of good profit and cash generation. I would like to thank all of our employees at every level throughout our many businesses for their contribution to the continuing success of the Group. We are expecting 2011 to be equally challenging and I am confident that our teams will rise to the occasion and will deliver another solid performance.

Markets & prospects

The current economic climate will continue to pose challenges to our business over the next 12 months and the October Spending Review will, we hope,

provide further clarity on public sector expenditure plans. Kier, with its established client relationships and financial strength, is well placed to attract construction work through its wide network of local offices and through the numerous frameworks in which we are involved in both the public and private sectors. We are encouraged by the prospects we see in markets such as power, utilities and waste. Our construction order books of secure and probable contracts are robust, providing 98% of our targeted revenue for 2011, much of it won through framework agreements, providing confidence that we can sustain healthy operating margins and strong cash flows.

Our Support Services business is benefiting from well-established client relationships which enable us to understand the needs of local authorities in order to help them to provide services efficiently and effectively. In our Partnership Homes business we are providing mixed-tenure dwellings funded through private financing as well as realising value for local authorities through the redevelopment of council-owned properties. We also have a private residential land bank that continues to provide us with future value.

Our experienced Developments team is working on a number of medium and long-term projects that will provide the division with development work as well as creating opportunities for other parts of the Group.

Our integrated business model provides us with unique opportunities drawing on the strength of our relationships with public and private sector clients. We have a strong balance sheet, a good track record of service delivery and very talented, capable staff, all of which give us confidence for the future.

Paul Sheffield
Chief Executive

1. Southfields Embankment, London Kier Construction

Pictured are Danny Cristofoli, project manager (left) and Willy Twum (right), who is site person in charge (SPIC), at the Southfields Embankment stabilisation project on the District Line of the London Underground.

Corporate responsibility

The Group's vision is "to be the most highly respected company in the industry". To achieve this vision we have to build, maintain, protect and enhance our reputation among our employees, customers, supply chain partners and investors, as well as among the community at large. A fundamental contribution to making this vision become reality is our robust approach to corporate responsibility, led by the Board and embedded in all the processes and services we undertake as a business. A full version of the following summary '2010 Corporate Responsibility Report' will be placed on our website and will be regularly updated as appropriate at: www.kier.co.uk/responsibility

The performance and reporting of the Kier Group Corporate Responsibility (CR) programme is benchmarked against both our competitors and customers through the annual Business in the Community (BITC) CR Index. This index assesses how we address the whole sustainability agenda, including issues concerning the environment and climate change (including waste and carbon reduction), the workplace (health and safety, employee relations and training), the marketplace (business ethics and corporate governance, customer relations and supply chain management) and community engagement. The Group has worked closely with the BITC CR Index team to tailor our approach to the pragmatic delivery of our CR programme whilst endeavouring to maximise its impact. This has enabled us to monitor our progress against authenticated benchmarks and set targets to drive continuous improvement.

Governance

The Group CR Steering Committee, which oversees the CR programme and is chaired by chief executive Paul Sheffield, meets quarterly with its agenda based upon the four BITC CR Index headings. Reports and recommendations from this Committee, formed of senior representatives of the key Group functions that cover health, safety and environment, employee relations and training, community engagement, procurement and customer relations, are placed on the agenda for the Group's full Board meetings in February, May, August and November.

The Group has put in place a sustainability strategy, supported by a wide range of procedures, policies and statements, which places corporate responsibility at the highest level within its businesses (see pages 12 and 13). These include our Business Ethics Policy, Competition Law Compliance Policy and recently revised Group Sustainable Procurement Policy.

The Group has also, during the last few years, established mechanisms and structures within which all businesses can actually deliver their corporate responsibilities in a measurable and full, third-party audited fashion. These range from health & safety procedures and environmental management systems to developing and adopting a bespoke SMARTWaste BRE waste management programme and becoming an Associate Member of the Considerate Constructors Scheme. It also includes a more manageable approach to corporate social responsibility and community activities, including formalised City Stewardship and local authority youth employment programmes.

During the year we have also consulted with several key shareholders for their feedback on our performance and their views on our approach to the CR agenda in the context of the wider investor environment.

BITC CR Index 2009/10

As included in the 2009 CR report, the Group made its first submission to the BITC CR Index in 2008 and we achieved a creditable 58.5%. The Group then committed to achieve a benchmark of 70%, or Bronze status, within three years, based upon the improvement plan and initiatives taken in each sector within the Index. The Group then made its second submission for the 2009 CR Index. We were pleased that we recorded a remarkable improvement in the period, immediately exceeding our broad three-year target in only 12 months by achieving a score of 78.2% (just short of the Silver status), representing a 33% improvement.

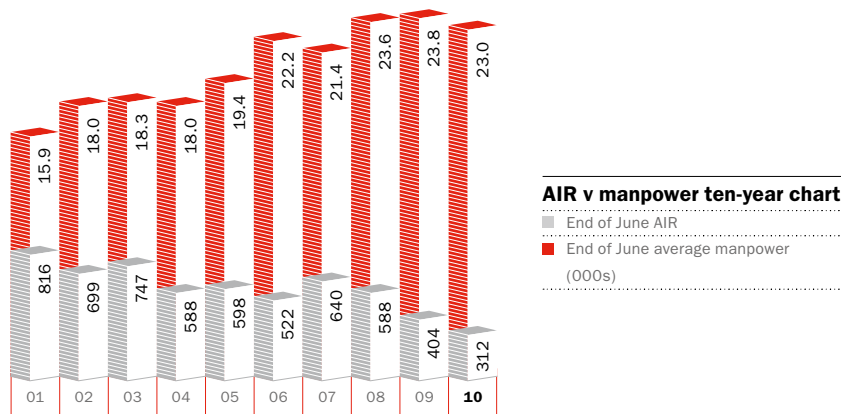
Following feedback from the BITC administrators our weakest categories have been identified under the area of 'impact', reflecting that whilst we have been very active in setting up the mechanisms, processes and policies to deliver an efficient CR



The Group participated in the 2009 BITC CR Index, achieving 78.2% (Bronze status), up from 58.2% in 2008.

The Group's whole CR programme has been based upon the BITC CR Index framework and core benchmark sectors shown in the wheel below and addressed individually in this report.





programme, we now need to measure the actual impact achieved. We will be completing the 2011 survey submission in October this year. We have commissioned an Index Peer Comparison Report from the BITC which will give us greater knowledge of our CR performance and impact which in turn will reflect in higher scores in future surveys. Details of some of the mechanisms now being put into place in response to this feedback follow in the report below.

The Board has put in place a target to achieve 90% (Gold status) under the BITC CR Index in the next three years.

Environment & climate change

In response to the UK Government’s Climate Change Act 2008, a commitment to significantly reduce greenhouse gas emissions, the Group is actively measuring and recording its energy/fuel use for all UK operations. We have founded a Carbon Reduction Commitment Committee, which has now established the mechanisms and frameworks within which the business will capture and report this data. As part of this exercise, we participated in the Carbon Disclosure Project (CDP) 2009, achieving a Carbon Disclosure Leadership Index score of 59. This places Kier in the top 80 of the 236 FTSE350 respondents. This submission was based only on our Construction division’s carbon emissions.

Our report for CDP 2010 now includes both our Partnership Homes and Support Services divisions to give a complete Group-wide submission, with results expected to be published in October 2010.

The Group’s scope 1 and 2 carbon emissions for 2009 (excluding mining operations) were 39,877 tonnes or 20.2 tonnes of CO₂/£m revenue. This will be used as the benchmark for future measurement, with a targeted reduction of 10% over the next 12 months. For the Construction division alone, we recorded 18,956 tonnes (2008: 26,727 tonnes) or 14.6 tonnes of CO₂/£m revenue (2008: 18.4 tonnes).

As part of our commitment to the Waste & Resource Action Programme’s (WRAP) ‘Halving Waste to Landfill’ initiative, our Construction division has achieved, in 2009, the following:

- 27% reduction in the amount of construction, demolition and excavation (CDE) waste sent to landfill, based on our 2008 baseline;

- 8% reduction in the amount of CDE waste generated per £100,000 of turnover.

The Group’s Construction division sent to landfill, in 2009, 16 tonnes of CDE waste per £100,000 of revenue (2008: 22 tonnes). The target is to reduce this figure to 11 tonnes by the end of 2012.

In 2010 we have worked closely with BRE to further upgrade the Group’s bespoke BRE online site waste management plan tool, ‘SMARTWaste’. This has significantly improved our capacity to analyse data streams across the Construction division. We are now looking to include our Building Maintenance businesses within this mechanism.

Following our success in significantly reducing both the percentage of waste generated and the percentage sent to landfill on the pilot initiative at the Carmel College Project in St Helens during the year, we have now introduced WRAP’s Material Logistics Planning concept across the business.

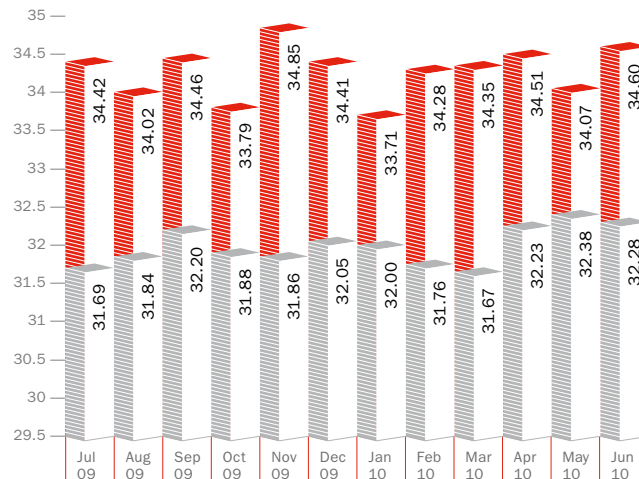
We have also established a Group agreement with the National Community Wood Recycling Project (NCWRP). Since the beginning of 2010 the NCWRP has recovered over 120 tonnes of waste wood from our sites, all of which has either been recycled or re-used, none going to landfill.

Workplace: Health & safety

Group businesses have maintained the aim of creating and maintaining safe sites through concentrating on ‘getting back to basics’, in conjunction with focusing on Health & Safety Leadership and our Behavioural Safety Leadership Programme.

Effective supervision remains a key factor in maintaining safe sites and the Group continues in its commitment for all supervisors on construction sites to hold the Construction Skills Site Supervisors’ Safety Training Scheme (SSSTS) certificate or a recognised equivalent supervisory qualification.

Our Behavioural Safety Leadership Programme, introduced to the Construction division in September 2008, is now firmly embedded. This programme focuses on encouraging active discussion within the workforce on safety specific issues. Future development of this programme is to include environmental issues under the collective banner of sustainable behaviour.



Considerate Constructors Scheme by month

■ Industry average (marks out of 40)
 ■ Kier average (marks out of 40)

Note: More stringent scoring criteria were introduced at the end of 2009

As part of our focus to raise the profile of health within health & safety, a construction health manager has been appointed, the primary function of this role being the practical delivery of occupational health awareness at site level. This is currently being achieved through a series of roadshows focusing on hand-arm vibration and noise.

A series of objectives and targets have been set for 2010/11 encompassing safety, health and environment issues to ensure that the Group's sustainability goals are fully supported and include a target of achieving an Accident Incidence Rate (AIR) of zero.

Workplace: Employees & training

The Group continues to offer a range of structured and innovative development programmes to attract new talent into our organisation. Almost 14% of our workforce is on new entrant trainee programmes. Our graduates and foundation degree students continue to be nominated by their businesses for their dedication and contribution to Kier. A third of employees enrolled on construction management NVQs have achieved their qualification in the last year.

Commercial awareness toolbox talks are bite-sized interactive learning modules to help construction site staff get 'back to basics' in terms of site and commercial management. An initial set of ten 30-minute sessions were developed by the technical training steering Committee. These are delivered on site by contracts managers or senior quantity surveyors. Subjects range from 'planning the works', 'setting out', 'material control and wastage' to 'record keeping', 'quality' and 'risk management'.

The commercial awareness toolbox talks will form part of the online 'technical training academy', currently under development, which will give access to course overviews, e-learning, course handouts and pre- and post-course tests.

Since investing in software to produce engaging and business focused e-learning programmes, over 9,000 staff have enrolled in a number of on-line courses. The benefits to this type of learning is a reduction in our carbon footprint as employees have little or no travelling time, less time away from the workplace and that the programmes can be

accessed anywhere there is an internet connection at a time convenient to the learner.

We are researching a number of technology-based learning methods to further support employees in obtaining the development they need in the most cost-effective and timely way.

We conducted an employee engagement survey in March to all divisions except Support Services, which plans to run the survey in October 2010. There were 2,650 respondents, representing just over a 60% response rate. An analysis of the results shows that discretionary effort from employees is higher than typical in Kier compared with UK and worldwide and we are well set to retain staff over the next year.

The four main factors that will improve our employee engagement are:

- strengthening the connection between our staff and Kier's purpose and direction;
- encouraging our management to give more feedback to their teams on a day-to-day basis;
- ensuring our people are increasing their skills and providing the responsibility they need to develop; and
- ensuring that people feel valued and have a career path ahead of them.

We will be focusing our efforts over the next year on:

- strengthening the connection between the Company and employees;
- improving people performance management through the roll out of a programme to increase our managers' people management skills. It will give managers the skills to be able to give specific feedback to their teams, and coach their people;
- introducing regular pulse surveys to get further employee feedback on specific issues such as attitudes to health & safety, customer focus and corporate responsibility; and
- ongoing re-measurement to monitor the improvements in engagement levels.

Marketplace: Customers & supply chain

A new section on the Group website was launched in 2009 and is devoted to supply chain engagement, sharing policies, procedures and the full range of Kier initiatives, including Safe and Unsafe Acts



Kier won ten gold awards and five gold medals in 2010.



Kier Group was a finalist in two categories: Corporate Social Responsibility and Sustainability at the 2010 Quality Awards.



Since January 2008, the Group has been an Associate Member of the Considerate Constructors Scheme.



Kier Regional has committed to the 'Halving Waste to Landfill' initiative by WRAP.

CARBON DISCLOSURE PROJECT

Kier participated in the 2009 Carbon Disclosure Project (CDP) and our Carbon Disclosure Leadership Index (CDLI) score of 59 put us amongst the top 80 of the 236 FTSE350 companies responding and third in our sector. We have submitted our data for the full Group in the 2010 CDP with results expected in October 2010.



Case Study

Open Academy, Norwich

It has been calculated that the building will remain carbon-negative for around the first 20 years of its operation.

Environment & climate change

- All excavated material retained on site
- Approximately 3,095 tonnes of CO₂ will be stored in the timber frame – the largest cross laminated timber building built in the UK to date
- Sequestered carbon = c500kgCO₂ per m³
- Two trees were planted for every one felled for use in its construction
- Zero waste from the manufacturing process
- Water-based adhesives
- Vastly reduced vehicle movements – entire superstructure delivered on just 78 lorries
- Six times faster to build than any conventional structure reducing on-site carbon
- The building achieved an air tightness pass rate of 2.2m³/hr/m²@50pa against a pass rate of 10m³/hr/m²@50pa

Workplace: Health & safety

- AIR of zero
- No RIDDOR reportable accidents
- Clean site with no construction waste, no wet trades involved in construction of superstructure means fewer trip hazards and vastly reduced manual handling
- Timber panel system means substantial reduction in working at height and no scaffold required in construction of superstructure or internal walls

Community engagement

- Supported School's Environmental Days
- Visits from local CIOB branch and Norwich City College
- Tours and on-site workshops for students on construction NVQ courses
- Visits to sites, tours and workshops have accounted for over 300 hours of staff time

Considerate Constructors

Scheme

- Project achieved CCS scores of 36 and 37 out of 40

Workplace: Employees & training

- Provided industrial year placements for two construction management degree course students
- Project employed two apprentices
- Provided 32 days of work experience for school students

Marketplace: Customers

& supply chain

- 80% of subcontractors engaged were from within a 30-mile radius of the project

(SUSA) behavioural safety, Target Zero defects, the Considerate Constructors Scheme, the Carbon Reduction Commitment and Halving Waste to Landfill.

We have conducted supplier awareness days throughout the UK with attendance of between 60 and 250 companies at each. These events deliver our messages on health, safety, performance improvement and innovation as well as providing facilitated open forums to enable Kier to listen to our key suppliers.

In May 2010 a revised, more robust Group Sustainable Procurement Policy was launched in line with BITC CR Index data requirements and placed on our website. This is being embedded into our procurement processes across all the Group divisions and a focus is being given to relationship management within our supply chain.

Community engagement

In 2008 the Construction division introduced a Corporate Social Responsibility (CSR) and community engagement template and model that was adopted by every regional business to make our activities in this field both more consistent and more manageable, together with the ability to record more closely the value in man-hours dedicated to community work by our staff for charitable causes. The success of this (see table on pages 40-41) prompted us to look more widely to encompass the whole Group's CSR activities. Thus, Kier iConnecting, a web-based data collection, analysis and reporting system for the Group's community engagement activities, has been launched this year under a system managed by Measure2improve Limited. This will help immensely in the delivery of a fully coordinated and structured CSR programme for community engagement throughout the Group as well as the capture of data regarding the Group's impact on communities so vital to our contract prequalification questionnaires (PQQs) requirements. This is being rolled out formally during November 2010.

By its very nature, our Building Maintenance business is embedded in the communities where it undertakes its work with councils and local authorities across the country. This is manifested in the fact that it has supported approximately 400 young people to re-engage in learning or work through programmes targeting the NEET group (young people not in education, employment or training). It has also provided over 5,000 work experience days for 14 to 16 year-olds through its various local authority building maintenance contracts. The business has delivered a groundbreaking programme targeting Children Leaving Care in four areas of the country in partnership with the national Care2Work initiative. For adults, it has supported the Future Jobs Fund by providing over 100 opportunities for unemployed adults and, furthermore, signed a Local Employment Partnership (LEP) with Jobcentre Plus, pledging to place every job vacancy with them to ensure maximum inclusion in our recruitment.

Considerate Constructors Scheme

As an Associate Member of the Considerate Constructors Scheme (CCS) the Group takes its obligations for excellent performance under the eight categories audited within the scheme extremely seriously. The scheme is applicable to all businesses and divisions in the Group and the monthly reports on every visit to our sites from the CCS administrators are posted on our website and intranet. We also produce quarterly reports that are circulated to every business unit summarising the Group's performance and distributing examples of best practice for further improvement.

During the year we received 29 national CCS awards, comprising two gold, ten silver and 17 bronze. This represents an improvement of 162% and 38% over our performance in 2008 and 2009 respectively. Despite the introduction of much more stringent marking regimes at the end of 2009 by the CCS administrators, our CCS monthly average score for 10 out of the 12 months within the period was above 34 out of the 40 maximum score. Our overall monthly average has risen from 33.66 in 2009 to 34.30 in 2010.

Last year we set the Group a target to exceed the national industry average during the year by 2.10 points, but we actually exceeded that by achieving an annual average of 2.31 (7.2%) above the industry average (2009: 2.06). Our new target for 2011 is 2.40. Our highest monthly average score peaked at 34.85 in November 2009, just before the scoring criteria changed, bringing down the average scores across the board. Nevertheless, our monthly average scores since then have demonstrated how our site teams have quickly adapted to the more stringent marking by recovering with scores above 34 since February 2010 to reach 34.60 in June.

Every quarterly report includes ideas to improve our scores and initiatives demonstrating areas of best practice. This has included the adoption of the National Community Wood Recycling Project to help our sites improve both their environmental impact and their community engagement.

Kier Sheffield LLP is now to sign up all its responsive maintenance units in a new pilot CCS scheme as a business in its own right. This is being adopted now by some major local authorities, but Kier is the first contractor to pilot this initiative.



SUSA workshops are being delivered across Kier at all levels.



Many of the environmental issues we face are common to both individuals and the Kier Group as a whole. Our employees play their part to make a difference.



Group agreement established with the National Community Wood Recycling Project (NCWRP) who have recovered 120 tonnes of waste wood from our sites, for recycling or re-use, since January 2010.

Corporate responsibility

Continued



Summary performance table

This table has been based broadly on the BITC CR Index sectors of management practice used to benchmark, monitor and report on corporate responsibility and which we have adopted as key performance indicators. Following our first submission to the BITC CR Index in 2008, when we achieved a creditable 58.5%, the Group aimed to achieve a target of 70% within the next three years based upon our improvement plan. The Group's second submission for the BITC CR Index in 2009 recorded a score of 78.2% (Bronze status) representing a 33% improvement and exceeding our three-year target in only 12 months. Our target now is to achieve 90% (Gold status) in the next three years.

Responsibilities

Commentary on performance

Environment & climate change



- New Group Sustainable Procurement Policy published and distributed to all key supply chain partners
- Green Apple Awards for the Built Environment 2010
 - Kier Eastern John Fisher RC School, Peterborough – National Green Champion
 - Kier Sheffield Fir Vale Eco House, Sheffield – Bronze
- Green Apple Awards for Environmental Best Practice 2010
 - Kier Harlow Waste Not, Want Not: Transforming the Waste Transfer Station
 - Kier Islington From Zero to Environmental Heroes
 - Kier Northern Supporting the Communities in which we work
 - Kier Sheffield Re-usable Stores Bags
 - Kier Sheffield Cutting our Office Carbon Footprint

www.kier.co.uk/responsibility/environment »

Workplace Health & safety



- AIR – Kier: 312 per 100,000 staff and subcontractors (2009: 404)
 - HSE benchmark: 782 per 100,000 staff and subcontractors (2009: 906)
- Site Supervision Safety Training Scheme (SSSTS) continued from previous year with a further 55 courses, and 72 employees (2009: 168) and 598 supply chain members (2009: 610) completed the course
- Safe and UnSafe Acts (SUSA) initiative had 1,938 delegates attending workshops
- Occupational Health – roadshows have continued with focus on noise & hand-arm vibration (HAV)

www.kier.co.uk/responsibility/health »

Workplace Employees & training



- 890 employees in registered development programmes (2009: 1,030)
- Over 9,000 employees have enrolled in e-learning courses (2009: 900+ staff completed such courses)
- 60% response rate to the 2010 Employee Engagement Survey
- Launch of the training Technical Academy

www.kier.co.uk/responsibility/employees »

Marketplace Customers & suppliers



- Business ethics now embedded within the Group and incorporated into contracts with suppliers and consultants
- A compliance review of corporate governance was undertaken across the business
- Regional construction companies reported a 54% improvement in the number of projects delivered with zero defects. Target set for the next year is to deliver 35% of all projects by value with zero defects
- Kier has contributed to many of the key industry improvement studies, including the Wolstenholm Report, an industry response to the Egan agenda
- Kier is a signatory to and is delivering against the requirements of the Government's Strategic Forum 2012 Construction Commitments

www.kier.co.uk/responsibility/marketplace »

Community engagement



- Completed first full-year of 'Connecting', the model template for community engagement across all Construction division business units
- Agreement made to launch 'iConnecting' as a Group-wide, web-based community engagement structure from November 2010 as extension to above
- Building Maintenance business supported approximately 400 young people to re-engage in learning or work through targeting the NEET group and provided over 5,000 work experience days to 14 to 16-year-olds
- In partnership with CSkills, successful in being lead employer managing two National Skills Academies for Construction in Stoke and North Tyneside

www.kier.co.uk/responsibility/community »

Considerate Constructors Scheme



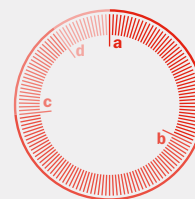
- Monthly average CCS score for Group achieved four record highs in the year
 - highest 34.85 out of 40.00 in November 2009
- National CCS Awards up from 21 in 2009 to 29 in 2010 including two gold and ten silver awards
- Overall Group monthly average up to 34.30 (2009: 33.66) and points exceeding the national average up to 2.31 (2009: 2.06). A target of 2.40 above the industry average has been set for 2011
- Monthly statistics on performance are updated monthly on the Kier website and intranet, in addition to comprehensive quarterly reviews produced and distributed throughout the Group

www.kier.co.uk/responsibility/ccs »

Key performance indicators

- Group's scope 1 and 2 carbon emissions for 2009 (excluding mining) were 39,877 tonnes or 20.2 tonnes CO₂/£m revenue. (Construction division down from 26,727 tonnes or 18.4 tonnes CO₂/£m revenue in 2008 to 18,956 tonnes or 14.6 tonnes CO₂/£m revenue in 2009). Target for Group is for a 10% reduction in 2010
- Construction, demolition and excavation (CDE) waste generated by the Construction division down to 45 tonnes per £100,000 revenue (2008: 49 tonnes/£100,000). CDE waste diverted from landfill up from 55% in 2008 to 64% in 2009. Target to halve waste to landfill by 2012 from 2008 baseline
- 7 Green Apple Awards in 2010 (2009: 4 Awards)

SMARTwaste data for how our waste has been managed Year to 30 June 2010



- a Disposed 32%** (2009: 40%)
- b Reused 41%** (2009: 31%)
- c Recycled 17%** (2009: 21%)
- d Recovered 10%** (2009: 8%)

RoSPA/British Safety Council Awards

Award	2010	2009
RoSPA President's Award	4	0
RoSPA Gold Medal	5	9
RoSPA Gold	10	13
RoSPA Silver	2	2
RoSPA Bronze	1	0
British Safety Council National Award	12	17

AIR (see graph on page 36)

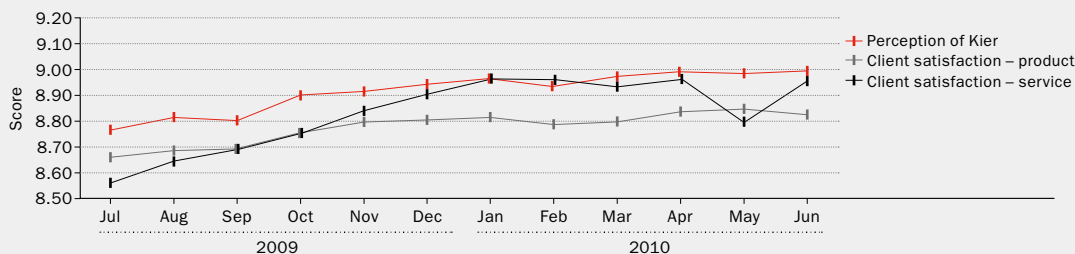
Kier	HSE
312 per 100,000 (2009: 404 per 100,000)	782 per 100,000 (2009: 906 per 100,000)

Number of employees in registered development programmes

	2010	2009
Day release & further education students	180	274
Craft apprenticeships	210	213
Foundation degree at Oxford Brookes University	79	54
NVQ accreditation for plant operatives	8	28
Construction management NVQs	70	106
Sponsorships	82	89
Graduate schemes	261	267
Total	890	1,031

261 Graduate schemes (2009: 267)	210 Craft apprenticeships (2009: 213)
---	--

Kier Regional – Client satisfaction trend (rolling 12-month scores)



- Overview of rolling 12-month average trends for sections: product, service and perception of Kier for Kier Regional
- All three indicators are now meeting the targets set at 8.3 and have continued to trend upwards during the year. Given more stringent criteria for benchmarking, a target of 8.5 has been set for 2010/11

Key data for community engagement under the Construction division's 'Connecting' structure

8,522

Man-hours

Time given by staff to fundraising, working in the community, environmental activities (cash equivalent over a third of a million pounds).

£57,000

Monies donated to good causes

1,063

Man-days
(based on 8-hour days)

Target for next year is to roll-out 'iConnecting' template across whole Group.

£68,000

Monies raised through sponsorship or other fundraising activities

Group donations

£97,000

Group direct donations to charities in the United Kingdom (2009: £64,000)

Some of the notable charities supported by Group businesses and individuals include Macmillan Cancer Support, Breast Cancer Research, Children in Need, NSPCC, Christie's Cancer Charity, Cancer Research, The Wildlife Trust, Sports Relief, Neuroblastoma Society, Help for Heroes, Leukaemia Research, The Prince's Trust, CRASH and several Air Ambulance Services.

Considerate Constructors Scheme data for the year to June 2010 (see graph on page 37)

Category ordered by performance (out of 5.0)	Third Qtr 2009	Fourth Qtr 2009	First Qtr* 2010	Second Qtr 2010
1 Safety	4.36	4.37	4.33	4.36
2 A good neighbour	4.33	4.33	4.36	4.31
3 Considerate	4.31	4.30	4.30	4.30
4 Responsible	4.25	4.31	4.23	4.32
5 Cleanliness	4.26	4.28	4.30	4.27
6 Respectful	4.29	4.21	4.27	4.27
7 Accountable	4.27	4.27	4.17	4.29
8 Environment	4.23	4.26	4.23	4.27
Overall average per quarter (out of 20)	34.30	34.33	34.19	34.39
(Year to June 2009)	33.28	33.52	33.84	33.92

National CCS Awards

2 Gold (2009: 3)
10 Silver (2009: 10)
17 Bronze (2009: 8)
29 Total (2009: 21)

*Note: More stringent scoring criteria were introduced at the end of 2009

Financial review



Deena Mattar, finance director

Accounting policies

The Group's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. This year we have adopted IFRIC 12 and have restated the balance sheet for 2009 accordingly. IFRIC 12 addresses how we account for our PFI concessions and has resulted in a reduction in net assets of £3.2m at 30 June 2009.

Other than stated above there have been no significant changes to the accounting policies adopted by the Group during the year to 30 June 2010.

Underlying profit before tax and earnings per share

Underlying profit before tax and exceptional items grew by 9.7% to £55.5m (2009: £50.6m). This includes a joint venture tax credit of £0.1m (2009: deduction of £0.3m) and is stated before minority interests of £0.8m (2009: £0.8m). The share of minority interests relates to the share of profits from our building maintenance outsourcing contracts attributable to local authorities in the circumstances in which they partner with Kier.

Earnings per share after the amortisation of intangible assets and before exceptional items were 17.7% ahead of last year at 115.5p (2009: 98.1p) benefiting from a reduction in the effective tax rate to 22% (2009: 28%) following the agreement of certain tax issues.

Exceptional items

Exceptional items amounted to a net credit of £2.2m, before tax, as follows:

	£m
Pension credit arising from changes to local authority schemes announced in the budget	16.0
Profit on the sale of two PFI investments	4.2
Provision in respect of the OFT fine against which we have appealed	(18.0)
Total exceptional items	2.2

The £16.0m credit to the income statement and corresponding improvement in the funding position of the Sheffield pension scheme has arisen from changes announced in the recent budget which apply to local authority pension schemes and in our case to the South Yorkshire Pension Scheme in which employees of Kier Sheffield LLP, within Kier Building Maintenance, participate. These changes will result in future pensions increasing at the rate of the Consumer Price Index (CPI) rather than at the Retail Price Index (RPI) and, therefore, reduce pension scheme liabilities.

In December 2009 we sold our investment in two education PFI projects for a combined cash consideration of £7.3m at a valuation discount of around 8% resulting in an exceptional gain of £4.2m.

On 22 September 2009 Kier, along with 102 other construction companies, was fined in respect of the Office of Fair Trading's investigation into cover-pricing in the construction industry. Our fine of £17.9m was calculated by reference to Kier Group plc's worldwide Group revenue for the year to 30 June 2008 (£2.3bn) and, as such, was the highest level of revenue to which the calculation of any of the fines was applied. We have appealed against the quantum of the fine and anticipate that the Competition Appeals Tribunal (CAT) will conclude its findings and make a decision towards the end of this calendar year. We have made an exceptional provision of £18.0m in the results for the year to 30 June 2010 to reflect the fine as it currently stands.

Taxation

The Group's effective tax rate, including joint venture tax on joint venture profits has reduced from 28% last year to 22% as a consequence of reaching agreement on certain issues with HMRC.

Net cash balances

(at 30 June 2010)

£175.2m

(2009: £92.5m)

Dividend per share

58.0p

(2009: 55.0p)

Interest and cash

The net interest paid for the year comprises the following:

	Year to 30 June	
	2010	2009
	£m	£m
Group interest receivable	3.1	5.3
Interest payable	(2.2)	(2.4)
Unwinding of discount	(1.9)	(2.4)
Share of joint venture interest	(1.3)	(0.7)
	(2.3)	(0.2)

The Group interest receivable includes that arising from average treasury balances of £67m for the year (2009: £36m). The charge of £1.9m relating to unwinding of discounts includes £1.1m relating to land creditor balances (2009: £2.1m).

Net funds at 30 June 2010 were a record £175.2m (2009: £92.5m) after deducting £30.3m relating to loan notes. £111.4m (2009: £7.5m) was generated from operations during the year including over £30m in respect of the sale of a property development (the UK Supreme Court).

Cash at 30 June 2010 includes £51.7m (2009: £46.7m) of cash which is not generally available for Group purposes, including that held by joint arrangements, overseas and other cash not readily available to the Group. The liquid cash position is affected by seasonal, monthly and contract-specific cycles.

Treasury policy and risk management

The Group has bank facilities amounting to £77.5m and long-term debt of £30m managed by the centralised treasury function.

- £40m of the bank facilities were renewed in September 2010 and are in place for 42 months, expiring in February 2014. £10m of the facilities is an overdraft facility and £27.5m expires in February 2011. The facility expiring in 2011 is currently under review.
- The long-term debt of £30m represents a ten-year UK and US private placement and is due to be repaid in February 2013.

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

There are minor foreign currency risks arising from operations. The Group has a small number of branches and subsidiaries operating overseas in different 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.

Balance sheet and total equity

Total equity at 30 June 2010 is £104.2m (2009: £89.3m).

Acquisitions and intangible assets

The balance sheet at 30 June 2010 includes intangible assets of £27.7m of which £13.7m relates to building maintenance contracts. During the year we made two acquisitions together with the acquisition of a building maintenance contract as follows:

- In September 2009 we acquired an investment in a Local Education Partnership in Kent in respect of the development of a number of Building Schools for the Future projects. The programme was set out in several phases with the first phase already under way when we acquired our investment. The consideration for the investment was £4.2m which comprised intangible assets of £5.2m, goodwill of £0.7m offset by net liabilities of £1.7m. £2.0m of the consideration was contingent upon future phases of building projects being signed up. In June 2010 it was announced that future phases of the Kent BSF programme would be cancelled, therefore at 30 June 2010 we have written £3.9m off the intangible asset, £1.9m through the income statement and £2.0m offsetting the provision held for the deferred consideration.
- In September 2009 we commenced a building maintenance contract for North Tyneside. The consideration was £6.9m representing the value of net assets acquired including intangible assets of £6.5m. £3.4m has been paid in the year to 30 June 2010, the rest is deferred over the life of the contract.
- In May 2010 we acquired Pure Recycling Limited for a total consideration of £7.1m. £2.0m was paid in cash on that date with the remainder contingent upon the completion of certain events together with the results of the business through to 2016. The net present value of the deferred consideration is £4.4m.

Inventories

An analysis of inventories is given below:

	As at 30 June	
	2010	2009
	£m	£m
Residential land	214.2	230.5
Residential work in progress	126.3	134.9
Property land and work in progress	18.5	21.3
Other work in progress	47.8	37.6
	406.8	424.3

The Group has conducted a review of the carrying value of its housebuilding land at 30 June 2010 in accordance with normal practice and accounting standards. No impairment in the carrying value of the land bank has been made this year. In the two years to 30 June 2009 we wrote the land bank down by a total of £69.1m representing 23% of the initial carrying value of the land bank.

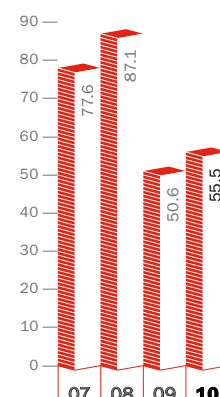
The Group has also reviewed the land and work in progress held within its Property business and no impairment provision has been made this year.

Pensions

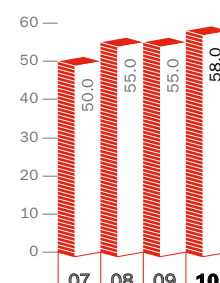
The Group participates in two principal schemes; the Kier Group Pension Scheme, which includes

Profit before tax (£m)

(before exceptional items)

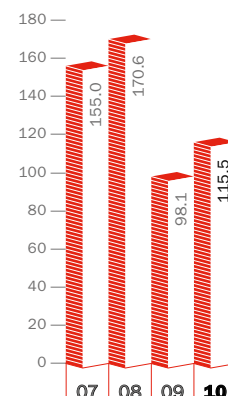


Dividend (p)



Earnings per share (p)

(before exceptional items)



Financial review

Continued

a defined benefit section, and a defined benefit scheme on behalf of its employees in Kier Sheffield LLP. The financial statements reflect the pension scheme deficits calculated in accordance with IAS 19. At 30 June 2010 the net deficit under the Kier Group Pension Scheme (the Scheme) was £56.6m (2009: £69.2m). The market value of the Scheme's assets was £611.2m (2009: £498.4m) and the net present value of the liabilities was £689.8m (2009: £594.5m). The increase in the liabilities is largely the result of a reduction in the discount rate to 5.3% (2009: 6.2%).

During the year we agreed to make an additional special cash contribution to the Scheme amounting to £13.2m which was settled through the transfer of residential land at market value, as confirmed by an independent valuation. This special contribution is reflected in the Group's balance sheet as a reduction in inventories together with a reduction in the gross pension deficit. As the land was transferred at greater than book value profits are included in operating profit for Partnership Homes and Developments for the year.

In addition to the land contribution during the year the Group has contributed £8.0m (2009: £8.0m) to the Scheme in respect of additional deficit funding based on an actuarial valuation as at 1 July 2007 which was 87% funded. The triennial valuation, as at 1 April 2010, is currently in progress and is likely to be finalised towards the end of the current financial year. We are still assessing the impact of the announced changes to inflation to be applied to future pension increases in respect of private pension schemes. The Group is committed to continuing to support the funding position of the Scheme.

Under the scheme relating to Kier Sheffield LLP there was a net deficit of £6.2m at 30 June 2010 (2009: £13.4m) after taking into account the benefit of £16.0m arising from the change in the inflation rate which is applied to future pensions for public sector pension schemes.

Pension charges of £11.9m (before the exceptional credit of £16.0m) (2009: £10.4m) have been made to the income statement in accordance with IAS 19.

Retirement

With effect from the close of the Company's annual general meeting on 12 November 2010, I will be retiring from my role as Group finance director and leaving the Group after 12 years, nine of which I have served on the Board. My sincere thanks go to all of my colleagues for their friendship and support over the past 12 years, in particular members of the finance and central teams, many of whom I have worked with for much of my time at Kier.

I shall be handing the reins to Haydn Mursell and wish him well in helping to drive the Group forward.

Deena Mattar

Finance Director

Business risks

How we manage risk

Core to our continued success is our ability to identify and effectively manage the risks to our business. Accordingly the Group has well-defined, rigorous policies and processes designed to identify, mitigate and control risk. Risks are specific to each of our businesses and are controlled through the Group's risk management processes. The primary risks that have the potential to adversely impact on our business over the next 12 months are considered to be as follows below.

OUR PROCESS

We contextualise risk in terms of our goals and objectives



Macro-economic climate

Contract & build

Land and property development acquisition

Investment

People

Legal & regulatory

Health, safety & environmental

Information technology

Pensions

Counterparty

Availability of finance and bonding facilities

Reputation

Risk	Mitigation
The order books for our Construction and Support Services divisions are dependent upon the level of expenditure in the public sector and the availability of credit for private sector expenditure.	<p>The Group has created a structure to manage and mitigate risk with the following key components:</p> <ul style="list-style-type: none"> – A wide geographic regional network of offices across the UK providing strong integration in local communities, our client base and our supply chain – A strong level of framework agreements and partnerships with government, local authorities and the private sector – An ability to react to evolving opportunities in the marketplace and to maintain a focus on cost reduction and efficiency. <p>We also carry out monthly and quarterly reviews of our workload and forecast our overhead levels as a percentage of future work in order to maintain a steady ratio of overhead costs to revenue.</p>
The Group carries out several hundred contracts annually and the risks to which the Group is exposed are dependent upon the nature of the work, the duration of the contract and the legal form of the contract.	The Group's appetite for very long-term, large, competitively tendered construction contracts is limited, driven by the desire to manage risk. Tenders for contracts are subject to approval by the Board, chief executive and finance director or divisional directors depending upon the value and nature of the contract. Contracts in progress are controlled and managed through the Group's operating structure and procedures, including rigorous and regular review of forecast revenue and costs to complete.
The cost and quality of land is fundamental to the profitability of a housing and property development business.	<p>Site evaluation is a key process and site appraisals are carried out in detail, including using external advice where appropriate. Land and development acquisitions are subject to approval by the Board, chief executive and finance director or divisional directors depending upon the value of the land. Developments in progress are controlled and managed through the Group's operating structure and procedures, including rigorous and regular review of forecast revenue and costs to complete.</p> <p>In the case of the Property division, development risk is controlled by commencing construction generally when it has either pre-sold or pre-let the development.</p>
The Group recognises there are risks associated with PFI investment.	The Group is selective in the PFI projects for which it bids, primarily concentrating on the sectors where we have established construction expertise.
The Group is dependent on members of its senior management team and on a flexible, highly skilled and well motivated workforce and believes its future success will depend, in part, on its ability to attract, develop and retain its personnel. If the Group does not succeed in attracting, developing and retaining skilled personnel it may not be able to grow as anticipated.	<p>The Group monitors staff turnover closely and pay and conditions are reviewed regularly against the prevailing market and benchmarked to ensure that we remain competitive.</p> <p>Succession planning is also key at all levels in the organisation.</p>
The Group is subject to a number of complex, demanding and evolving tax, legal and regulatory requirements. A breach of laws and regulations could lead to legal proceedings, investigations or disputes resulting in a disruption of business ranging from additional costs incurred on a project to civil and/or criminal penalties as well as reputational damage to the Group.	The Group monitors and responds to legal and regulatory developments in the areas in which it operates. It is the Group's policy to require that all of its subsidiaries, employees, suppliers and subcontractors comply with applicable laws, regulations and standards. Training courses are provided, including e-learning courses, to keep staff fully aware of their responsibilities.
The Group's activities require the continuous monitoring and management of health, safety and environmental risks. Failure to manage these risks could cause injury to our employees and subcontractors and could expose the Group to significant potential liability and reputational damage.	Detailed HSE policies and procedures exist to minimise such risks and are subject to review and monitoring by operating companies and Group. All operating companies have a director responsible for HSE although it is recognised that all directors and employees are responsible for health and safety. (See pages 34 & 36)
The efficient operation of the Group is increasingly dependent upon the proper operation, performance and development of its IT systems. Failure to manage or integrate IT systems or to implement successfully changes in IT systems could result in a loss of control over critical business information and/or systems. This, in turn, could impact the Group's ability to fulfil its contractual obligations.	Group IT manages the majority of systems in the Group centrally. Other IT systems are managed locally by experienced IT personnel. Significant investments in IT systems are subject to Board review and approval.
The Group is exposed to funding risks arising from changes in longevity, inflation and investment assumptions in relation to its defined benefit schemes. These changes could result in an additional funding requirement.	<p>Steps have been taken over time to eradicate our calculated deficit including the closure of the Scheme to new entrants in 2002 and the imposition of a cap on pensionable salary increases, taken in 2009. Other measures to mitigate liabilities are under continuous review by the Group.</p> <p>The performance of the Group's pension schemes are regularly monitored by the Group and the Trustees of the pension scheme who, as appropriate, take advice from external consultants.</p>
The Group depends, for its success, on the stability of its customers, joint venture partners, suppliers, funders, bondsmen and insurers. Failure in these counterparties could result in non-collection of amounts owed or disruption and delays to contract progress.	Considerable efforts are made to assess the financial strength of counterparties before entering into contract and to structure payments so as to mitigate our financial exposure to them for the duration of our relationship. Where the Group is particularly dependent upon the continued financial strength of the providers of key financial services to the Group, we take steps to spread this exposure across a range of counterparties so as to diversify risk.
The Group's long-term business is dependent upon cash resources, facilities and the ability to provide performance and other bonds as necessary.	Cash forecasts and balances are prepared regularly (weekly and daily). Bank facilities are in place which have been recently renegotiated. The Group has strong, long-term relationships with its bondsmen and has an in-house team which monitors headroom and advises on bond terms and conditions.
Our ability to tender for new business and our relationship with our range of customers, supply chain partners, our employees and other stakeholders depends a great deal upon the good reputation that we have established for the Group and how we are perceived by others.	In order to protect and enhance our reputation we have put in place a robust series of business ethics, sustainability and compliance policies together with a range of mechanisms that help deliver the Group's corporate responsibility programme, including health & safety, environmental impact, climate change, employees, customers & supply chain and community engagement. (See pages 35 to 41)

Board of Directors



On the laws of Tempsford Hall, the Group's headquarters in Sandy, Bedfordshire, are from left to right: Deena Mattar, Steve Bowcott, Dick Simkin, Simon Leathes, Phil White, Paul Sheffield, Nick Winsor, Chris Geoghegan, Ian Lawson, Hugh Raven



Board of Directors

Continued

Phil White CBE non-executive chairman

Aged 61, was appointed non-executive chairman of the Group in November 2007 having joined as non-executive director in July 2006. He served as chief executive of National Express Group plc from January 1997 to September 2006. He is a chartered accountant and has extensive experience of both listed and private companies. He is currently chairman of Lookers plc and Unite Group plc. He is chairman of the Nomination Committee and a member of the Remuneration Committee.

Paul Sheffield chief executive

Aged 49, was appointed chief executive in April 2010. He joined the Group as a graduate engineer in 1983. He has extensive knowledge of both UK and overseas contracting and was appointed managing director of Kier Construction in 2001, chairman of Kier Construction in 2003 and joined the Kier Regional Board in 2004. He was appointed to the Board in October 2005 and in November 2008 he assumed responsibility for all of the Group's construction activities. He holds the position of director with overall responsibility for safety, health and environmental matters and is a member of the Nomination Committee.

Deena Mattar finance director

Aged 45, 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 the Group's major projects construction arm until July 2001 and was appointed Group finance director in November 2001. She will be retiring from the Board at the conclusion of the annual general meeting on 12 November 2010.

Steve Bowcott

Aged 55, was appointed an executive director of the Group on 1 July 2010. He rejoined the Group in January 2007 to head up its Scottish and northern businesses, which are part of Kier Regional. He subsequently became deputy managing director of Kier Regional and, in January 2010, was appointed managing director of Kier Regional. In April 2010 he was appointed managing director of the whole of the Construction division.

Dick Simkin

Aged 62, 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 in 2002 and was appointed to the Board in January 2003 as director responsible for the Group's Property division. In July 2008 he took on the additional responsibility for Kier Project Investment and the new business stream Kier Asset Partnership Services.

Ian Lawson

Aged 53, rejoined the Group in November 2000 as managing director of the Group's Infrastructure Investment operations. His knowledge of major overseas and UK contracting was established early in his career within the Group. He has served on both the Kier Regional board as well as the Support Services board. In October 2005 he was appointed main board director responsible for Support Services and in July 2008 his responsibilities were extended to include the Partnership Homes division, embracing both the private and social housing businesses.

Simon Leathes non-executive

Aged 62, was vice chairman for support services at Barclays Capital, the investment banking division of Barclays plc, from January 2001 to December 2006. He previously held senior appointments at Lend Lease Corporation, Hambros plc and SG Warburg Group plc and now provides financial and investment advice to companies and institutions. 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. He will be retiring from the Board at the conclusion of the annual general meeting on 12 November 2010 and will be replaced as chairman of the Audit Committee and member of the Nomination and Remuneration Committees by Richard Bailey, a director of Rothschilds, who was appointed as a non-executive director of the Company with effect from 1 October 2010.

Chris Geoghegan non-executive

Aged 56, was appointed to the Board in July 2007. He joined the Board of BAE Systems plc in July 2002 as chief operating officer with responsibility for all European joint ventures and UK defence electronics assets. He is non-executive chairman of e2v technologies plc, a non-executive director of Hampson Industries, a Fellow of the Royal Aeronautical Society and a past President of the Society of British Aerospace Companies. He is the senior independent director, chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

Nick Winser non-executive

Aged 50, was appointed to the Board in March 2009. He joined the Board of National Grid in April 2003 as Group director responsible for UK and US transmission operations. He was previously chief operating officer of US transmission for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming director of engineering in 2001. Prior to this, he had been with PowerGen since 1991 as principal negotiator on commercial matters, having joined the Central Electricity Generating Board in 1983 where he served in a variety of technical engineering roles. He is a member of the Audit, Nomination and Remuneration Committees.

Hugh Raven company secretary

Aged 38, joined the Group in April 2010 from Eversheds' London corporate/commercial department. He brings significant experience of corporate transactions and regulatory issues, having worked for top city firms during his career with considerable exposure to the construction sector. He is responsible for corporate governance within the Group and, as general counsel, oversees the Group's legal affairs.

Directors' report

Introduction

The directors present their annual report and audited financial statements as at, and for the year ended, 30 June 2010.

This directors' report should be read in conjunction with the chairman's statement, the chief executive's review, the corporate governance statement and the directors' remuneration report, each of which is incorporated by reference in (and shall be deemed to form part of) this directors' report to the extent required by applicable law or regulation.

Principal activities

The Group's principal activities during the course of the year were construction, support services, private and affordable housing, and developments.

A review of the Group's business and progress during the year is included within the chairman's statement on pages 4 to 5 and the chief executive's review on pages 6 to 34.

Results and dividends

The Group profit for the year after taxation and exceptional items was £40.5m (2009: £16.9m).

An interim dividend of 18.5p per share (2009: 18.0p), amounting to £6.8m (2009: £6.6m), was paid on 4 May 2010. The directors propose a final dividend of 39.5p per share (2009: 37.0p per share), amounting to £14.6m (2009: £13.6m), payable on 26 November 2010 to shareholders on the register of members at the close of business on 24 September 2010.

Directors

Biographical details of the directors of the Company as at 15 September 2010 are shown on page 48. Mr S Bowcott was appointed as a director of the Company with effect from 1 July 2010 (and a resolution will be proposed at the forthcoming annual general meeting for the election of Mr S Bowcott as a director of the Company); all of the other directors shown on such pages were directors of the Company throughout the year. Mr J Dodds retired from the Board on 31 March 2010.

On 12 July 2010, the Company announced that Miss D E Mattar intended to leave the Group with effect from the conclusion of the forthcoming annual general meeting. The Company also announced that Mr H J Mursell would join as Group finance director designate and that Mr H J Mursell was expected to take over from Miss D E Mattar upon her departure.

On 1 September 2010, the Company announced that Mr R C Bailey had been appointed as a non-executive director of the Company with effect from 1 October 2010. At the forthcoming annual general meeting, a resolution will be proposed for the election of Mr R C Bailey as a director of the Company.

Mr S W Leathes will retire from the Board with effect from the conclusion of the forthcoming annual general meeting. Mr S W Leathes will not stand for re-election.

Details of directors' interests, including interests in the Company's shares, are disclosed in the directors' remuneration report on pages 56 to 61.

Qualifying third party indemnities

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

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

The Combined Code on Corporate Governance

A statement on corporate governance is set out on pages 52 to 55.

Going concern

The Group has considerable financial resources, together with long-term contracts with a number of customers and suppliers across its business activities. As a consequence, the directors believe that the Group is well placed to manage its business risks effectively.

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

Charitable and political donations

During the year, the Group's donations to charity in the United Kingdom were £97,000 (2009: £64,000), principally to local charities serving the communities in which it operates. The Group has considerable involvement in such communities, as described in the corporate responsibility report on pages 35 to 41. No political donations were made during the year (2009: nil).

Financial instruments

Details of the financial risk management objectives and policies of the Group, together with its exposure to material financial risks, are set out in notes 1 and 25 of the consolidated financial statements.

Research and development

The Group undertakes research and development activity in creating innovative construction techniques and design integral to the delivery of its projects. The direct spending incurred is not separately identifiable as the investment is usually contained within the relevant project.

Employees

The companies in the Group are equal opportunities employers. The Group gives consideration to applications for employment made by disabled persons (having regard to their particular aptitudes and abilities) and encourages and assists, whenever practicable, the recruitment, training, career development and promotion of disabled people and the retention of, and appropriate training for, those who become disabled during the course of their employment and who can be employed in a safe working environment.

Directors' report

Continued

Employees continued

The Group provides relevant information on matters of concern to employees through newsletters and holds formal and informal meetings with local management (which are also aimed at achieving a common awareness on the part of employees of factors affecting the performance of the Group). The Group operates the Kier Group plc 2006 Sharesave Scheme (Sharesave Scheme), which was approved by shareholders on 25 November 2006, 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 all employee share ownership plan for all employees, which includes a share-matching element.

Policy and practice on payment of creditors

The Group agrees payments with its suppliers and subcontractors on an individual contract basis rather than following a code or standard on payment practice. The Group's policy is to abide by these agreed terms whenever the relevant Group company 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 30 June 2010 was nil (2009: nil).

Subsidiary trading companies within the Group, acting in accordance with the above policy, exhibit creditor days averaging 32 (2009: 34) in respect of suppliers of invoiced goods and services and 17 (2009: 16) in respect of certified amounts due to subcontractors. These figures exclude amounts not currently due for payment but included within trade creditors.

Share capital

As at 30 June 2010, the issued share capital of the Company comprised a single class of ordinary shares of 1 pence each.

As at 30 June 2010, 37,477,386 shares were in issue. During the year, 251,083 shares were issued in relation to the scrip dividend alternative and 4,434 shares were issued in connection with the Sharesave Scheme. No other shares were issued during the year. Details of the Company's share capital are set out in note 22 of the consolidated financial statements.

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

Restrictions on transfer of securities in the Company

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

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

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

Substantial voting rights

At 15 September 2010, the Company had been notified of the following interests in the ordinary share capital of the Company, pursuant to Rule 5.1 of the Disclosure and Transparency Rules:

Standard Life Investments Limited	12.7%
Schroders Investment Management Limited	7.0%
BlackRock Inc	3.9%
Legal & General Group plc	3.8%
Norges Bank Investment Management	3.5%

Securities carrying special rights

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

Rights under employees' share schemes

As at 30 June 2010, The Royal Bank of Canada, as trustee of the Kier Group 1999 Long-term Incentive Plan (the LTIP), which was approved by shareholders on 27 November 1999, held 522,664 shares (approximately 1.4% of the issued share capital of the Company) on trust for the benefit of the directors and certain senior managers of the Group.

At the same date, Computershare Investor Services PLC held 880,711 shares (approximately 2.3% of the issued share capital of the Company) on trust for the benefit of staff and former staff who are members of the Group's all employee share ownership plan.

Voting

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

Restrictions on voting rights

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

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

Appointment and replacement of directors

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

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

Appointment and replacement of directors continued

At every annual general meeting of the Company, one-third of the directors who are subject to the requirement to retire by rotation (which shall not include any director who was appointed by the Board and is standing for election) shall retire from office and may offer themselves for re-election by the members. The directors to retire by rotation shall be those who have been longest in office since their last election. The Company may by ordinary resolution of which special notice has been given remove any director before the expiry of the director's period of office. The office of a director shall be vacated if: (i) the director becomes bankrupt or the subject of an interim receiving order or makes any arrangement or composition with creditors generally or applies to the court for an interim order in connection with a voluntary arrangement under the Insolvency Act 1986; (ii) the director becomes physically or mentally incapable of acting as a director and may remain so for more than three months; (iii) the director ceases to be a director by virtue of the Companies Acts or becomes prohibited by law from being a director; (iv) the director receives written notice from not less than three-quarters of the other directors removing the director from office; and (v) in the case of a director who holds executive office, the director ceases to hold such office and the majority of the other directors resolve that relevant director's office be vacated.

Amendment of Articles

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

Powers of the directors

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

Powers in relation to the Company issuing its shares

The directors were granted authority at the annual general meeting on 7 November 2009 to allot shares in the Company up to an aggregate nominal amount of £124,072. This authority will expire on the date of this year's annual general meeting and a resolution to renew the authority will be proposed at the forthcoming annual general meeting, as explained further in the notice of annual general meeting accompanying this document.

A special resolution will also be proposed to renew the directors' power to make non-pre-emptive issues of shares for cash, as also explained further in the notice of annual general meeting.

Powers in relation to the Company buying back its shares

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

Change of control

The Company has entered into certain agreements that may take effect, alter or terminate upon a change of control of the Company following a takeover bid. The significant agreements in this respect are the Group's main credit facility agreements and certain of its employee share schemes.

The Group's main credit facility agreements include a provision such that, in the event of a change of control, the relevant lender may cancel all or any part of the relevant facility and/or declare that all amounts outstanding under the relevant facility are immediately due and payable by the Company.

Outstanding options granted under the Sharesave Scheme may be exercised within a period of six months from a change of control of the Company following a takeover bid taking place (or shall lapse upon the expiry of such a period).

Awards granted under the LTIP may vest on a change of control of the Company following a takeover bid and the maximum number of shares in the Company to be awarded upon such vesting may become immediately due.

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

Auditors

In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of the Group's auditors, KPMG Audit Plc, will be proposed at the forthcoming annual general meeting.

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

Annual general meeting

The annual general meeting of the Company will be held at the Brewery, Chiswell Street, London EC1Y 4SD on 12 November 2010 at 11.00 am. The notice of annual general meeting accompanies this document.

This report was approved by the Board on 15 September 2010 and signed on its behalf by:

H E E Raven

Company Secretary

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Corporate governance statement

The Combined Code on Corporate Governance

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 set out in Section 1 of the Combined Code on Corporate Governance issued in June 2008 (the Combined Code). The Company has complied with such principles throughout the year, except as explained below.

Throughout the year, independent non-executive directors comprised less than half of the Board. The Board remains of the view that to increase the number of independent non-executive directors to a level where parity was attained would lead to an unduly large and unwieldy Board, without delivering any tangible benefit to shareholders. For these reasons, the Board believes that, although the current Board structure does not comply with the Combined Code, it is satisfactorily balanced in practice, with the independent non-executive directors having a substantial presence in Board debate.

The Board has noted the introduction of the UK Corporate Governance Code, which is expressed to apply to accounting periods beginning on or after 29 June 2010. The Board is currently considering the steps required to reflect the provisions of the new code in its policies and procedures.

Board of directors

The Board is responsible to shareholders for the success of the Company. The Board sets the strategic and financial policies of the Group, monitors and reviews business performance and controls risk. The Board has put in place standing orders which are designed to ensure that it is provided with relevant information on a timely basis, which set authorisation limits and which reserve certain matters for the Board or its Committees, including:

- strategy and financial policy;
- the approval of financial statements;
- risk management;
- major capital expenditure;
- major project approval;
- acquisitions and disposals; and
- certain aspects of human resources policy, including senior appointments, general salary reviews, employee share plans and pension provision.

The principal matters considered by the Board during the year included:

- the Group's budgets, strategy, structure and financial requirements;
- the annual and interim financial statements (taking into account the views of the Audit Committee);
- interim management statements;
- the Group's final salary pension scheme;
- the implications of and proper approach to the issues relating to the Castlepoint Shopping Centre car park, Bournemouth;
- potential acquisitions;
- the implications of prevailing economic conditions and the appropriate response to them;
- material operational opportunities;
- the implications of the election of a coalition government, including the potential impact on public sector expenditure;
- health and safety issues and strategies;
- corporate responsibility matters;
- the response to an employee engagement survey conducted by the Group;
- the process of appealing against the fine imposed by the Office of Fair Trading as a result of cover pricing by a Group company; and
- presentations as to strategic issues from the senior management of a number of the divisions.

The Group's chairman is Mr P M White, who leads the Board. He is responsible for the Board's effectiveness and sets its agenda, ensuring that the directors receive accurate, timely and clear information. He facilitates the effective contribution of the non-executive directors and ensures a positive and constructive relationship between the executive and non-executive directors. The chairman is also responsible for effective communication with shareholders.

Mr J Dodds retired from the Board on 31 March 2010 and was replaced as chief executive by Mr M P Sheffield, who is responsible for the operational management of the Group and is accountable to the Board for the implementation of the Group's strategy. In order to facilitate this, the chief executive meets monthly with a management Committee comprising the other executive directors and he also chairs monthly management meetings with each of the divisions. The chief executive also meets regularly with the human resources managers and the director of safety, health and environment.

The senior non-executive director is Mr C V Geoghegan. The Board considers Mr C V Geoghegan and Mr N P Winsor to be independent directors. The chairman of the Board, Mr P M White, was also considered to be independent on his appointment.

Board of directors continued

Mr S W Leathes will retire from the Board with effect from the conclusion of the forthcoming annual general meeting. Mr S W Leathes will not stand for re-election. In anticipation of Mr S W Leathes' retirement, the Board announced the appointment of Mr R C Bailey as a non-executive director with effect from 1 October 2010. Mr R C Bailey is considered by the Board to be independent. The Board was of the view that, as a result of Mr R C Bailey's recent and relevant experience, it did not need to use either an external search consultancy or open advertising in making this appointment. At the forthcoming annual general meeting, a resolution will be proposed for the election of Mr R C Bailey as a director of the Company. Biographical details of Mr R C Bailey will be included in the notice of annual general meeting.

On 12 July 2010, the Company announced that Miss D E Mattar intended to leave the Group with effect from the conclusion of the forthcoming annual general meeting. The Company also announced that Mr H J Mursell would join as Group finance director designate and that Mr H J Mursell was expected to take over from Miss D E Mattar upon her departure.

A table of attendance of directors at meetings of the Board and its various Committees is set out on page 54. In addition to these meetings, the full Board attends a number of away-days annually which focus on strategy, material issues facing the Group and succession planning. Outside of the formal schedule of meetings, the non-executive directors met without the executive directors on a number of occasions during the year.

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, although no such positions are currently held.

The Remuneration 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 the Group's culture and of its focus on long-term performance. So far as is considered appropriate, the Group prefers to promote individuals from within.

Board evaluation

The chairman carried out an evaluation of the Board during the year. This included all the Committees of the Board. The chairman held individual meetings with each director to discuss their views and to solicit their opinions. The conclusions were discussed collectively by the Board and a number of actions agreed. The performance of the chairman was reviewed separately in a process led by the senior independent director.

The terms and conditions of appointment of the non-executive directors are available for inspection at the registered office and will be on display prior to and at the annual general meeting.

Audit Committee

The Audit Committee comprises the non-executive directors. During the year ended 30 June 2010, the chairman of the Audit Committee was Mr S W Leathes, a chartered accountant with recent and relevant financial experience. The Committee met four times during the year in July, September, February and June. These Committee meetings were also attended by the finance director and the head of internal audit. The KPMG audit engagement director attended the meetings in September and February and then met with the Committee without management being present. The chairman and executive directors have an open invitation to attend the meetings.

The Company announced that Mr R C Bailey will replace Mr S W Leathes as the chairman of the Audit Committee for the year ending 30 June 2011. Mr R C Bailey is a chartered accountant with recent and relevant financial experience.

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 processes and reviewing the scope and results of the external audit.

The 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 Committee.

At each of its meetings, the Committee received and reviewed a report from the head of internal audit which highlighted the internal audit activity against the approved plan, together with the key findings from internal audits. The chairman of the Committee also has separate meetings with the head of internal audit and the Committee has also met with the head of internal audit without management being present. In June 2010, the Committee carried out a review of the effectiveness of the internal audit function.

The Committee is responsible for monitoring the independence and objectivity of KPMG, the external auditors, and agreeing the level of remuneration and extent of non-audit services. The Committee received a presentation from KPMG on its audit strategy and the scope of work at the February meeting, which the Committee agreed. It also discussed the firm's professional ethical standards.

The Committee reviewed the performance of KPMG and the non-audit fees paid to them during the year, details of which are set out in note 3 to the consolidated financial statements. 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 predetermined cost threshold and any work costed below that threshold must be pre-approved by the Group finance director. These controls enable the Committee to be satisfied that KPMG's objectivity and independence as auditors had not been impaired, notwithstanding the provision of non-audit services in the year.

The Committee agreed and approved KPMG's overall audit fee following discussions between relevant Group management and KPMG.

The Committee's terms of reference are available on request from the Company secretary and on the Company's website.

Corporate governance statement

Continued

Remuneration Committee

The Remuneration Committee comprises the chairman and the non-executive directors, under the chairmanship of Mr C V Geoghegan.

Information about the workings of this Committee is contained in the directors' remuneration report on page 56. The Committee makes recommendations to the Board on the Company's framework of executive 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 Committee's terms of reference are available on the Company's website and on request from the Company secretary.

Nomination Committee

The Nomination Committee presently comprises the Group's chairman, the chief executive and the non-executive directors. It is responsible for monitoring the composition and balance of the Board, making recommendations to the Board on new Board appointments and succession planning. The Committee met twice during the year. The Committee's terms of reference are available on the Company's website and on request from the Company secretary.

Board and Committee meetings

Details of the number of meetings of the Board, Audit, Remuneration and Nomination Committees, and attendance at such meetings, during the year are set out in the table below.

Name of director	Board (11)	Audit (4)	Remuneration (5)	Nomination (2)
P M White	11	–	5	2
M P Sheffield	11	–	–	–
J Dodds ¹	8	–	–	1
C V Geoghegan	11	4	5	2
I M Lawson	11	–	–	–
S W Leathes	11	4	5	2
D E Mattar	11	–	–	–
R W Simkin	11	–	–	–
N P Winser	9	4	3	2

¹ Mr J Dodds retired from the board on 31 March 2010.

Any non-attendance at meetings was due to other business commitments. When a director was unable to attend, he reviewed the papers circulated prior to the meeting and provided his comments to the chairman of the meeting.

Mr S Bowcott attended three Board meetings during the year, prior to being appointed to the Board with effect from 1 July 2010.

Internal control

The Combined Code requires that the directors review the effectiveness of the Group's system of internal control and that this review covers all material controls, including operational, compliance and financial controls and risk management systems. The directors are satisfied that procedures are in place to ensure that the Group complies with the Turnbull Committee guidance published by the Institute of Chartered Accountants in England and Wales and that the procedures have been applied during the year.

The Board has overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. The Board considers that the Group's systems and controls, which have been developed and refined over many years, are appropriately designed to ensure that the Group's exposure to significant risks is properly managed. However, such systems are designed to manage rather than eliminate the risk 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, 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 authority;
- 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 in place which is regularly reviewed and updated;
- a formal quarterly review of each division's year-end forecast, business performance, risk and internal control matters which 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 (PFI) projects, and tenders for contracts being 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 control continued

- internal audits 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 is 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 in place for each business unit highlighting 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 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 as at 31 March 2010 and the findings reviewed by the Audit Committee;
- reviewing and reporting of safety, health and environmental matters; and
- the provision of a confidential method of reporting any suspected fraud or other misfeasance to the head of internal audit.

The Board receives regular reports from all operating units to monitor their performance and all business unit management teams are briefed on issues arising at Board meetings.

During the course of the year, members of the Board visit all significant Group 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 and Remuneration Committees 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 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 as to the Group's performance. The Board is provided with independent feedback from analysts and institutional shareholders.

The Company's website is also maintained to aid communication with investors, employees, customers, suppliers and the general public.

Directors' remuneration report

Introduction

This report has been prepared by the Remuneration Committee on behalf of the Board. In writing it, the Committee has adopted the governance principles relating to directors' remuneration which are set out in the Combined Code.

This report complies with the Companies Act 2006, Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules.

The Remuneration Committee

The Remuneration Committee is a Committee of the Board consisting of the non-executive directors and the chairman of the Board. The following directors were members of the Committee during the year ended 30 June 2010:

C V Geoghegan (chairman)
S W Leathes
P M White
N P Winsor

The secretary of the Committee is Mrs A Sale, rewards director.

The terms of reference of the Committee are available on the Group's website and on request from the Company secretary. The Committee meets when necessary, but not less than once a year. Details of the number of times that the Committee met, and the number of meetings attended by each director, during the year ended 30 June 2010 are set out on page 54. The Committee consults the chief executive concerning its proposals (except in relation to his own remuneration) and takes external professional advice as appropriate. In respect of the year ended 30 June 2010, the Committee was advised by its independent remuneration advisers, Kepler Associates. Kepler Associates provides no other advice, or services, to the Company.

Where necessary, or appropriate, the Committee consults with major institutional shareholders on remuneration matters.

Remuneration policy

The Committee makes recommendations to the Board on its executive remuneration policy, for adoption by the Board, and determines specific remuneration packages for each of the executive directors on behalf of the Board. The Committee also monitors the remuneration packages of other senior members of management within the Group.

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 an increasingly greater emphasis on rewarding executives by reference to the Group's long-term performance by incentivising long-term sustainable profit growth and the creation of long-term value. Accordingly, for the year ending 30 June 2011, the Committee is seeking shareholder approval at the forthcoming annual general meeting for a new long-term incentive plan which will reward three-year total shareholder return (TSR) outperformance and three-year cumulative earnings per share (EPS) performance. In addition, it is proposed that one-third of any annual bonus will be satisfied by Kier Group plc shares and that such shares will be subject to clawback over a three-year period.

The Committee reviews the executive directors' remuneration on an annual basis. At each review, the Committee considers an individual's experience and performance in their role over the year (as well as over the period since being given the role) against a number of key performance indicators relating to both individual and corporate measures of performance. The individual's experience and performance are then considered against the market positioning of pay for the role, based on an analysis of external reference points provided by the Group's independent remuneration advisers. The Committee's key objective is to ensure executive pay is aligned with shareholders' long-term interests and optimises the balance between:

- the need to attract and retain talent, but to provide value for money; and
- increasing the long-term variable aspect of total remuneration and ensuring a mix that is appropriate to the Group.

The Committee also takes into account employment terms and conditions across the Group in determining the executive directors' remuneration so as to ensure a consistent approach.

The executive directors' remuneration consists of a basic salary, an annual bonus, benefits in kind, awards under a long-term incentive plan and membership of a pension scheme. Further information on each of the elements is set out below.

Basic salary

The Committee decided not to increase the executive directors' salaries in 2009 in light of the adverse economic conditions in which the Group was operating. For 2010, the Committee decided to increase salaries by approximately 3% (effective 1 July 2010) for all executive directors except Mr M P Sheffield who received an increase on promotion to chief executive in April 2010. The Committee approved similar rates of salary increase across the Group. This decision was influenced by the improved performance of the business during the year ended 30 June 2010 and a desire for consistency at and below Board level.

The basic salaries of the executive directors, with effect from 1 July 2010, are:

Executive director	From 1 July 2010 £000	During the year to 30 June 2010 £000
S Bowcott ¹	310	n/a
D E Mattar	350	340
I M Lawson	330	320
M P Sheffield ²	430	320
R W Simkin	330	320

¹ Mr S Bowcott was appointed to the Board with effect from 1 July 2010.

² Mr M P Sheffield's increase took effect from 1 April 2010 and also reflects his promotion to chief executive.

Benefits in kind

The remuneration received by each of the directors during the year, together with details of share interests and pension benefits, are set out on pages 59 to 61.

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

Annual bonus arrangements

During the year ended 30 June 2010, executive directors were eligible to receive a cash bonus of up to 75% of basic salary, based on the Group achieving pre-tax profit performance targets. Based on the Committee's review of the Group's performance against its targets, it determined that a bonus of 38% of basic salary would be payable to each of the executive directors during the year and was satisfied that this was commensurate with the Group's overall performance for the year.

Performance targets are agreed by the Committee at the start of the financial year; they are not published externally for reasons of commercial confidentiality.

Following a consultation with shareholders, the Committee proposes two changes to the executive directors' annual bonus arrangements for the year ending 30 June 2011.

Firstly, one-third of any annual bonus will be satisfied by Kier Group plc shares which will be subject to clawback in certain circumstances. A similar approach is to be applied to the annual bonus arrangements for divisional directors. The Committee believes that the part satisfaction of the annual bonus in Kier Group plc shares will further strengthen the alignment of interests of the executive directors, and of the divisional directors, with those of shareholders.

Secondly, the Committee has decided to incorporate key measures of non-financial performance in relation to 20% of the annual bonus. For the year ending 30 June 2011, the Committee has determined targets based on health and safety and corporate responsibility. The Committee also decided that 80% of the annual bonus will continue to be based on the Group's pre-tax profit performance.

Retirement benefits

Executive directors participate in the Kier Group Pension Scheme which has both a defined benefit section and a defined contribution plan.

Executive directors in the defined benefit section accrue pension up to the value of the lifetime allowance. Where the value of pension exceeds the lifetime allowance, future pension accrual ceases and a cash supplement of 20% of salary is paid.

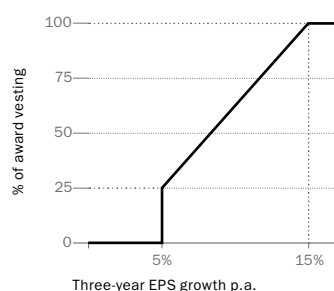
Only the basic salary of directors is pensionable. Details of individual directors' pension arrangements are shown on page 60.

In 2010, the Committee will review the existing retirement benefits of the executive directors in light of anticipated changes to approved pension provisions in the UK.

Long-term incentives

Under the LTIP, the executive directors are eligible to receive contingent awards of shares worth up to 100% of salary per annum. Awards granted in the year ended 30 June 2010 are subject to the Group achieving the following three-year adjusted EPS growth targets:

EPS growth targets



- 100% of the award vests if EPS increases by at least 15% per annum;
- no awards will vest unless EPS increases by at least 5% per annum, at which point 25% of the award will vest; and
- for EPS performance between these two levels, awards vest on a straight line basis.

The above targets were selected by the Committee to ensure that the Group would have to attain a substantial improvement in underlying financial performance before any awards could vest. EPS is a key long-term performance measure used by the Group and the Committee believes that it is easily understood. The attainment of the performance targets is verified by the Committee and reviewed by the Group's auditors.

The LTIP has now expired and, following consultation with shareholders, the Committee has decided to recommend the implementation of a new long-term incentive plan. Shareholder approval for the new plan will be sought at the forthcoming annual general meeting and further details of the plan are set out in the circular to shareholders accompanying the notice of that meeting.

The following principal changes are being proposed to the existing LTIP:

- the introduction of a TSR outperformance measure for 50% of the awards in order to provide an external assessment of long-term performance and increase alignment with shareholders' interests;
- the remaining 50% of awards will continue to be based on EPS performance, but measured on a cumulative basis to improve the robustness of performance target calibration. Cumulative EPS will be calculated by aggregating the EPS in each of the three years of the performance period and then determining the equivalent constant annual growth rate (CAGR); and
- a requirement for executive directors to retain 50% of their net vested LTIP awards until they have attained the individual shareholding requirement of one times salary (for further details, please see page 58).

Directors' remuneration report

Continued

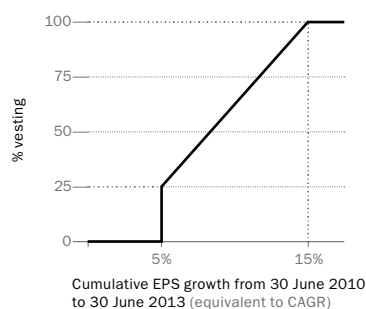
Long-term incentives continued

In the year ending 30 June 2011, the Committee intends to make awards to executive directors under the new LTIP of 100% of salary (subject to satisfaction of the performance conditions). Participation will also be extended to include additional senior executives below the Board. Previously, these executives were awarded cash-based long-term incentive awards and the Committee believes this change will further strengthen alignment with shareholders' interests.

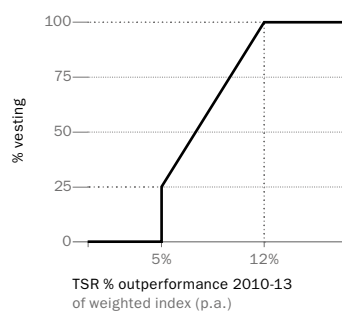
The rules of the new LTIP will allow for individual awards sizes of up to 200% of salary. Over time, this is intended to provide the Committee with sufficient flexibility to increase the emphasis of long-term performance on pay. However, the Committee does not intend granting LTIP awards in excess of 100% of salary in 2010 and 2011.

The proposed performance vesting schedules for the new LTIP are as follows:

EPS element of the award



TSR element of the award



TSR outperformance will be measured on a multiplicative basis relative to a revenue weighted index based on the FTSE ASX Construction index and the FTSE ASX Support Services index. For each award cycle, the revenue weightings will be fixed based on the Group's prior year revenue mix and disclosed in the remuneration report after the award has been made. Such a weighted index is intended to provide a better reflection of the Group's overall business mix and therefore provide a more robust measure of management's contribution to long-term value creation. For awards in respect of the year ending 30 June 2011, these weightings will be 75% on the Construction index and 25% on the Support Services index. For example, if Construction index TSR is 16% and Support Services index TSR is 12%, the Group's TSR will need to be at least 15% ((75% x 16%) + (25% x 12%)) for this element of the LTIP award to vest.

Each year the Committee will review both the EPS and the TSR performance targets for new award cycles to ensure they continue to be appropriately stretching and achievable. At the end of each performance cycle, the Committee will undertake to ensure that any payout from the LTIP reflects the long-term underlying performance of the Group.

Shareholding guidelines

The Committee's policy encourages executive directors to build up a shareholding in the Company equal to at least one year's salary over a period of up to five years. In relation to the year ending 30 June 2011 and following years, executive directors will be required to retain any annual bonus shares and 50% of vested LTIP awards (net of tax) until this shareholding has been achieved.

Service contracts

Name ¹	Effective Date	Notice Period ²
P M White	2 January 2008	1 month
C V Geoghegan	1 July 2007	1 month
I M Lawson	1 October 2005	12 months
S W Leathes	12 March 2001	12 months
D E Mattar	1 October 2001	12 months
M P Sheffield	1 October 2005	12 months
R W Simkin	1 January 2003	3 months
N P Winser	1 March 2009	1 month

¹ Mr J Dodds retired from the Board on 31 March 2010. Mr J Dodds' service agreement contains a 12 month notice period which concludes in November 2010.

² Notice may be served by either party.

No term is included in any of the executive directors' service agreements or the non-executive directors' letters of appointment. However, each director is subject to re-election, in accordance with the Articles, further details of which are set out on page 50 and 51.

Mr S Bowcott was appointed to the Board from, and his service agreement was effective on, 1 July 2010. The notice period under Mr S Bowcott's contract is 12 months (and notice may be served by either party) and the term of this contract is as described above.

Mr R C Bailey was appointed to the Board from, and his letter of appointment was effective on, 1 October 2010. The notice period under Mr R C Bailey's letter of appointment is one month (and notice may be served by either party) and the term of the contract is as described above.

The executive directors' service agreements do not contain any provisions for compensation for loss of office. These service agreements contain provisions relating to early termination and, in such cases, the Remuneration Committee will consider the specific circumstances, the Company's commitments under the service agreement and the director's obligations to mitigate.

The Remuneration Committee believes that its policy in relation to notice periods and early termination payments under the directors' contracts is fair and reasonable in the interests of the Group and the individual concerned.

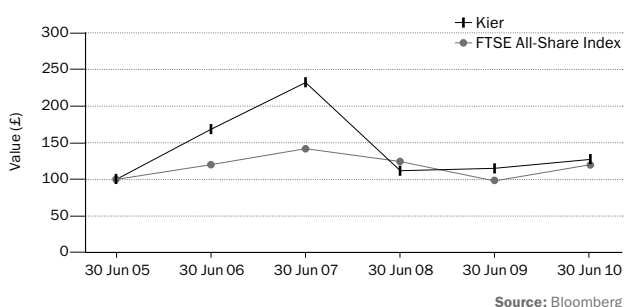
Non-executive directors

The remuneration of the non-executive directors is determined by the Board and reflects the 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. As indicated above, the Company has entered into letters of appointment with each of the non-executive directors. The letters of appointment do not include any provisions for the payment of predetermined compensation in the case of wrongful termination by the Company.

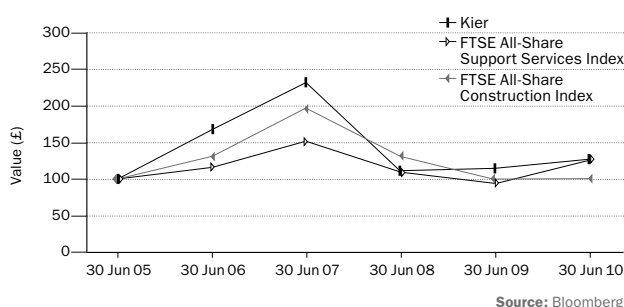
Total shareholder return

The following graphs chart cumulative TSR of the Company over the last five financial years. The graphs show the value, on 30 June 2010, of £100 invested in Kier Group plc on 30 June 2005 compared with the value of £100 invested in the FTSE All-Share Index, the FTSE All-Share Construction Index and the FTSE All-Share Support Services Index. The other points plotted are the values at intervening financial year-ends.

TSR



TSR



Audited information

Except for the disclosure on directors' interests, the following information on pages 59 to 61 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 2010 was as follows:

	Salary & fees £000	Pension ¹ salary sacrifice £000	Pension ¹ supplement £000	Benefits £000	Bonus £000	Total 2010 £000	Total 2009 £000
P M White	150	-	-	-	-	150	144
J Dodds ^{1,2}	401	-	80	15	204	700	797
C V Geoghegan	51	-	-	-	-	51	49
I M Lawson	320	(24)	-	21	122	439	397
S W Leathes ³	91	-	-	-	-	91	61
D E Mattar	340	(27)	-	23	129	465	430
M P Sheffield	348	(24)	5	15	132	476	391
R W Simkin	320	(26)	-	12	122	428	399
N P Winser	41	-	-	-	-	41	14
R W Side ⁴	-	-	-	-	30	30	132
	2,062	(101)	85	86	739	2,871	2,814

¹ The pension-related salary sacrifice and pension supplement are explained in the pensions section on page 60.

² Mr J Dodds retired from the Board on 31 March 2010. In addition to the above amounts, £387,000 was paid to him in respect of the remainder of the notice period under his service agreement.

³ Emoluments received by Mr S W Leathes include £42,000 (2009: £14,000) paid in respect of his position as chairman of the trustees of the Kier Group Pension Scheme.

⁴ Mr R W Side retired from the Board on 8 November 2008. The amount referred to represents his bonus entitlement for the year ended 30 June 2009.

Directors' remuneration report

Continued

Directors' pensions

Pension benefits earned by the directors during the year ended 30 June 2010 as members of the defined benefit section of the Kier Group Pension Scheme are as follows:

	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 2010 £000	Transfer value of accrued pension at 30 June 2009 £000	Increase in transfer value £000	Transfer value of accrued pension at 30 June 2010 £000
J Dodds ³	17	17	337	220	4,049	359	4,408
I M Lawson	11	11	166	65	746	215	961
D E Mattar	12	12	137	80	712	217	929
M P Sheffield ⁴	14	14	189	134	1,377	338	1,715
R W Simkin	12	12	250	113	2,094	331	2,425

¹ The 'Increase in accrued pension over the year' is the difference between the total accrued benefit at the end of the year and the equivalent amount at the beginning of the year. The figures presented are the same in absolute and inflation adjusted forms, since inflation was negative over the year to September 2009 (and therefore treated as zero for benefit revaluation purposes).

² The figures in this column are the transfer values of the increases in the directors' benefits during the year ended 30 June 2010.

³ Mr J Dodds reached his normal retirement date on 21 September 2005. Any increase in his accrued benefit after this date is due to the application of an actuarial late retirement factor to compensate him for late payment of his benefits. For the period after this date, he receives a pensionable allowance of 20% of salary.

⁴ Mr M P Sheffield received a cash supplement equal to 20% of the amount by which his salary exceeded the statutory earnings cap relating to his pension contributions.

The above transfer values have been calculated on the basis of actuarial advice in accordance with UK legislation.

Members also have the option to pay additional voluntary contributions. Neither these contributions nor resulting benefits are included in the above table.

All member contributions to the Kier Group Pension Scheme are payable via a salary sacrifice arrangement.

Directors' interests

The directors of the Company at 30 June 2010 had the following beneficial interest (including interests of connected persons) in the ordinary shares of the Company:

	30 June 2010	1 July 2009 (or date of appointment, if later)
P M White	2,540	2,540
C V Geoghegan	5,000	5,000
I M Lawson	19,854	19,228
S W Leathes	10,000	10,000
D E Mattar	385,368	434,764
M P Sheffield	37,820	35,012
R W Simkin	313,004	313,004
N P Winser	3,500	2,000

Mr S Bowcott (and his connected persons) were beneficially interested in 2,234 ordinary shares in the Company on his appointment to the Board, which was effective on 1 July 2010.

The executive directors, as potential beneficiaries of the Kier Group 1999 Employee Benefit Trust (the Trust), are deemed along with all other UK employees to have an interest in 522,664 (2009: 525,837) ordinary shares with an aggregate nominal value of £5,227 (2009: £5,258), representing approximately 1.4% of the called up share capital of the Company, held by the Trust.

At 15 September 2010, the following directors had acquired beneficial interests in further ordinary shares in the capital of the Company: Mr S Bowcott, 54 shares; Mr I M Lawson, 54 shares and Miss D E Mattar, 54 shares. There had been no changes in the interests of the other directors (or their connected persons) in the ordinary shares in the capital of the Company since 30 June 2010.

Sharesave Scheme

The Sharesave Scheme is a save as you earn option scheme, approved by HM Revenue & Customs under Schedule 3 of the Income Tax (Earnings and Pensions) Act 2003. All eligible employees and executive directors are entitled to participate in the Sharesave Scheme. Performance conditions do not apply. There has been no variation of the terms and conditions of such options.

The following directors hold options under the Sharesave Scheme in respect of the following number of ordinary shares in the capital of the Company:

	Date granted	Number at 1 July 2009	Awarded during the year	Exercised during the year	Lapsed during the year	Number at 30 June 2010	Exercise price	Exercise period
I M Lawson	17 April 2009	1,220	–	–	–	1,220	£7.50	1 July 2012 – 1 January 2013
M P Sheffield	17 April 2009	1,220	–	–	–	1,220	£7.50	1 July 2012 – 1 January 2013

The market price of a Kier Group plc share at close of business on 30 June 2010 was £9.68. The highest and lowest market prices of a Kier Group plc share during the year ended 30 June 2010 (in each case, at the close of business on the relevant day) were £13.10 and £8.41, respectively.

Long-term incentive plan (LTIP)

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

	2008 award	2009 award	2010 award	Cumulative Total 30 June 2010	Cumulative Total 30 June 2009
J Dodds ¹	22,681	53,348	22,535	98,564	113,056
I M Lawson	10,711	34,871	25,781	71,363	55,998
D E Mattar	12,853	37,051	27,393	77,297	62,635
M P Sheffield	10,711	34,871	25,781	71,363	55,998
R W Simkin	11,996	34,871	25,781	72,648	58,672
Date of award	16 October 2007	17 November 2008	13 October 2009		
Share price at the time of award	1,984p	780p	1,055p		
End of performance period	30 June 2010	30 June 2011	30 June 2012		

¹ Mr J Dodds retired from the Board on 31 March 2010.

In relation to the 2008 award, 25% vests if EPS grows by at least 5% per annum in excess of inflation over the performance period, increasing on a sliding scale to 100% vesting if growth is at least 20% per annum in excess of inflation.

In relation to the 2009 and 2010 awards, 25% of the award vests on 5% per annum EPS growth over the relevant performance period, increasing on a sliding scale to 100% vesting if nominal EPS growth is at least 15% per annum.

Growth in EPS for the three-year performance periods ended 30 June 2009 and 30 June 2010 was not sufficient for either the 2007 or 2008 awards to vest.

There were no variations to the LTIP during the year.

Approval of report

Mr C V Geoghegan, chairman of the Remuneration Committee, will 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. This directors' remuneration report will be submitted for approval by the Company at the forthcoming annual general meeting.

This report was approved by the Board on 15 September 2010 and signed on its behalf by:

C V Geoghegan

Chairman Remuneration Committee

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law.

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
- the chief executive's review and the directors' report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board by:

M P Sheffield
Chief Executive

D E Mattar
Group Finance Director

Independent auditors' report to the members of Kier Group plc

We have audited the financial statements of Kier Group plc for the year ended 30 June 2010 set out on pages 64 to 103. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards as adopted by the EU (IFRS). The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the statement of directors' responsibilities set out on page 62, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us;
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns;
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 49, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the Combined Code specified for our review.

Andrew Marshall (Senior Statutory Auditor) for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
8 Salisbury Square
London EC4Y 8BB
15 September 2010

Consolidated income statement

For the year ended 30 June 2010

	Notes	2010			2009		
		Before exceptional items £m	Exceptional items* £m	Total £m	Before exceptional items £m	Exceptional items* £m	Total £m
Revenue							
Group and share of joint ventures	2	2,098.7	–	2,098.7	2,145.6	–	2,145.6
Less share of joint ventures		(42.7)	–	(42.7)	(33.7)	–	(33.7)
Group revenue		2,056.0	–	2,056.0	2,111.9	–	2,111.9
Cost of sales		(1,847.0)	–	(1,847.0)	(1,925.1)	(44.5)	(1,969.6)
Gross profit		209.0	–	209.0	186.8	(44.5)	142.3
Administrative expenses		(151.2)	–	(151.2)	(136.7)	(1.8)	(138.5)
Credits on retirement benefit obligations		–	16.0	16.0	–	24.3	24.3
Provision for fine imposed by the Office of Fair Trading		–	(18.0)	(18.0)	–	–	–
Share of post tax results of joint ventures	14	(1.3)	–	(1.3)	–	(3.8)	(3.8)
Profit on disposal of joint venture		–	4.2	4.2	–	–	–
Profit from operations	2	56.5	2.2	58.7	50.1	(25.8)	24.3
Finance income	5	3.1	–	3.1	5.3	–	5.3
Finance cost	5	(4.1)	–	(4.1)	(4.8)	–	(4.8)
Profit before tax	2	55.5	2.2	57.7	50.6	(25.8)	24.8
Income tax	9a	(12.3)	(4.9)	(17.2)	(14.0)	6.1	(7.9)
Profit for the year		43.2	(2.7)	40.5	36.6	(19.7)	16.9
Attributable to:							
Equity holders of the parent		42.4	(2.7)	39.7	35.8	(19.7)	16.1
Minority interests	12	0.8	–	0.8	0.8	–	0.8
		43.2	(2.7)	40.5	36.6	(19.7)	16.9
Earnings per share							
	11						
– basic		115.5p		108.2p	98.1p		44.1p
– diluted		114.6p		107.3p	97.8p		44.0p
Adjusted earnings per share							
(excluding the amortisation of intangible assets)							
	11						
– basic		121.3p			102.5p		
– diluted		120.3p			102.2p		

*Exceptional items relate to provision for a fine imposed by the Office of Fair Trading, profit on disposals of joint ventures, land and work in progress write-downs, restructuring costs and pensions curtailment and past service credits (note 4).

All results are derived from continuing operations.

Consolidated statement of comprehensive income

For the year ended 30 June 2010

	Notes	2010 £m	2009 £m
Profit for the year		40.5	16.9
Other comprehensive income/(loss)			
Foreign exchange translation differences		–	0.1
Share of joint venture recycling of cash flow hedge movements		2.2	–
Share of joint venture fair value movements in cash flow hedging instruments		(5.1)	(15.3)
Fair value movements in Group cash flow hedging instruments		0.9	(1.9)
Actuarial losses on defined benefit pension schemes		(10.2)	(103.2)
Other comprehensive loss before taxation		(12.2)	(120.3)
Deferred tax on items recognised directly in equity			
Share of joint venture cash flow hedging instruments		0.8	4.2
Group cash flow hedging instruments		(0.3)	0.6
Actuarial losses on defined benefit pension schemes		2.9	28.9
Taxation credit on other comprehensive loss	9b	3.4	33.7
Other comprehensive loss for the year		(8.8)	(86.6)
Total comprehensive income/(loss) for the year		31.7	(69.7)
Attributable to:			
Equity holders of the parent		30.9	(70.5)
Minority interests		0.8	0.8
		31.7	(69.7)

Consolidated statement of changes in equity

For the year ended 30 June 2010

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Attributable to equity holders of the parent £m	Minority interests £m	Total equity £m
At 30 June 2008	0.4	34.4	2.7	142.0	2.6	0.1	182.2	0.9	183.1
Effect of adoption of IFRIC 12 (net of tax)	–	–	–	(3.2)	–	–	(3.2)	–	(3.2)
At 1 July 2008 (restated)	0.4	34.4	2.7	138.8	2.6	0.1	179.0	0.9	179.9
Profit for the year	–	–	–	16.1	–	–	16.1	0.8	16.9
Other comprehensive income/(loss) for the year	–	–	–	(74.3)	(12.4)	0.1	(86.6)	–	(86.6)
Dividends paid	–	–	–	(20.1)	–	–	(20.1)	(1.1)	(21.2)
Issue of own shares	–	1.7	–	–	–	–	1.7	–	1.7
Purchase of own shares	–	–	–	(0.8)	–	–	(0.8)	–	(0.8)
Share-based payments credit	–	–	–	(0.9)	–	–	(0.9)	–	(0.9)
Tax on share-based payments	–	–	–	0.3	–	–	0.3	–	0.3
At 30 June 2009 (restated)	0.4	36.1	2.7	59.1	(9.8)	0.2	88.7	0.6	89.3
Profit for the year	–	–	–	39.7	–	–	39.7	0.8	40.5
Other comprehensive loss for the year	–	–	–	(7.3)	(1.5)	–	(8.8)	–	(8.8)
Dividends paid	–	–	–	(20.4)	–	–	(20.4)	(0.5)	(20.9)
Issue of own shares	–	2.7	–	–	–	–	2.7	–	2.7
Share-based payments charge	–	–	–	1.4	–	–	1.4	–	1.4
At 30 June 2010	0.4	38.8	2.7	72.5	(11.3)	0.2	103.3	0.9	104.2

Consolidated balance sheet

At 30 June 2010

	Notes	2010 £m	2009 restated £m
Non-current assets			
Intangible assets	12	27.7	11.2
Property, plant and equipment	13	84.4	86.9
Investment in joint ventures	14	23.9	30.4
Deferred tax assets	15	24.4	32.1
Trade and other receivables	18	15.3	49.0
Non-current assets		175.7	209.6
Current assets			
Inventories	16	406.8	424.3
Trade and other receivables	18	330.1	296.7
Income tax receivable		-	6.6
Cash and cash equivalents	19	205.5	122.7
Current assets		942.4	850.3
Total assets		1,118.1	1,059.9
Current liabilities			
Other financial liabilities	25	(0.2)	(0.6)
Trade and other payables	20	(811.5)	(769.7)
Tax liabilities		(0.8)	-
Provisions	21	(5.5)	(5.9)
Current liabilities		(818.0)	(776.2)
Non-current liabilities			
Long-term borrowings	19	(30.3)	(30.2)
Other financial liabilities	25	(0.1)	(0.3)
Trade and other payables	20	(19.6)	(13.4)
Retirement benefit obligations	8	(87.2)	(114.7)
Provisions	21	(55.5)	(32.3)
Deferred tax liabilities	15	(3.2)	(3.5)
Non-current liabilities		(195.9)	(194.4)
Total liabilities		(1,013.9)	(970.6)
Net assets	2	104.2	89.3
Equity			
Share capital	22	0.4	0.4
Share premium		38.8	36.1
Capital redemption reserve		2.7	2.7
Retained earnings		72.5	59.1
Cash flow hedge reserve	22	(11.3)	(9.8)
Translation reserve	22	0.2	0.2
Equity attributable to equity holders of the parent		103.3	88.7
Minority interests	12	0.9	0.6
Total equity		104.2	89.3

The financial statements were approved by the Board of directors on 15 September 2010 and were signed on its behalf by:

M P Sheffield

D E Mattar

Directors

Consolidated cash flow statement

For the year ended 30 June 2010

	Notes	2010 £m	2009 £m
Cash flows from operating activities			
Profit before tax		57.7	24.8
Non cash exceptional items			
Credits on retirement benefit obligations		(16.0)	(24.3)
Provision for fine imposed by the Office of Fair Trading		18.0	–
Profit on disposal of joint venture		(4.2)	–
Restructuring costs		–	1.8
Land and work in progress write-downs		–	48.3
Other adjustments			
Share of post tax trading results of joint ventures	14	1.3	–
Normal contributions to pension fund in excess of pension charge		(0.5)	(2.9)
Equity settled share-based payments charge/(credit)	23	1.4	(0.9)
Amortisation and impairment of intangible assets	12	6.8	2.2
Depreciation charges	13	14.7	14.6
Profit on disposal of property, plant & equipment		(0.7)	(1.3)
Net finance expense/(income)	5	1.0	(0.5)
Operating cash flows before movements in working capital		79.5	61.8
Special contributions to pension fund		(21.2)	(8.0)
Payment of restructuring costs		(1.2)	(8.3)
Decrease in inventories		17.8	51.4
Decrease in receivables		1.0	33.8
Increase/(decrease) in payables		30.1	(133.5)
Increase in provisions		5.4	10.3
Cash inflow from operating activities		111.4	7.5
Dividends received from joint ventures	14	0.8	0.4
Interest received		3.9	4.8
Income taxes paid		(1.1)	(7.4)
Net cash generated from operating activities		115.0	5.3
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		2.2	4.4
Proceeds from sale of joint venture	28b	7.3	–
Purchases of property, plant & equipment		(11.0)	(15.3)
Purchase of intangible assets		(1.4)	–
Acquisition of subsidiaries	28a	(8.1)	(14.0)
Net investment in joint ventures	14	(0.6)	(9.0)
Net cash used in investing activities		(11.6)	(33.9)
Cash flows from financing activities			
Purchase of own shares		–	(0.8)
Interest paid		(2.4)	(2.5)
Dividends paid to equity holders of the parent		(17.7)	(18.4)
Dividends paid to minority interests		(0.5)	(1.1)
Net cash used in financing activities		(20.6)	(22.8)
Increase/(decrease) in cash and cash equivalents		82.8	(51.4)
Opening cash and cash equivalents		122.7	174.1
Closing cash and cash equivalents		205.5	122.7
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash and cash equivalents		82.8	(51.4)
Increase in long-term borrowings		(0.1)	–
Opening net funds		92.5	143.9
Closing net funds		175.2	92.5
Net funds consist of:			
Cash and cash equivalents		205.5	122.7
Long-term borrowings		(30.3)	(30.2)
Net funds	19	175.2	92.5

Notes to the consolidated financial statements

1 Significant accounting policies

Kier Group plc (the Company) is a company domiciled in the United Kingdom (UK). The consolidated financial statements of the Company for the year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

The consolidated financial statements were approved by the directors on 15 September 2010.

Statement of compliance

The Group's consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (GAAP). These are presented on pages 99 to 101.

Basis of preparation

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 financial statements are presented in pounds sterling. They have been prepared on the historical cost basis except for derivative financial instruments which are stated at their fair value, certain inventories that are valued at net realisable value and certain payables on extended terms which are stated at discounted cost.

The following amendments to standards or interpretations are mandatory for the first time for the financial year ended 30 June 2010:

IFRS 2	'Amendments to share-based payments: vesting conditions and cancellations'
IFRS 3	'Business combinations (revised 2008)'
IFRS 7	'Amendments to financial instruments: disclosures – improving disclosures about financial instruments'
IFRS 8	'Operating segments'
IAS 1	'Presentation of financial statements (revised 2007)'
IAS 23	'Borrowing costs (revised 2007)'
IAS 27	'Consolidated and separate financial statements (revised 2008)'
IFRIC 12	'Service concession arrangements'
IFRIC 14	'Amendments to the limit on defined benefit assets, minimum funding requirements and their interaction'
IFRIC 15	'Agreements for the construction of real estate'.

The directors have considered the basis on which the Group's operating segments are determined and disclosed following the adoption of IFRS 8, and have concluded that the existing segments remain appropriate under the new standard.

The adoption of the revised IAS 1 has resulted in the statement of changes in equity being contained in the primary statements rather than within the notes to the financial statements. In addition, the Group has elected to present a separate income statement and statement of comprehensive income. In accordance with the changes in terminology required by the standard the statement of recognised income and expense has been renamed the statement of comprehensive income.

The adoption of IFRIC 12 on 1 July 2009 has resulted in a reduction in the investment in joint ventures and in retained earnings of £3.2m at this date. The impact of the adoption of IFRIC 12 at 30 June 2008 was also a reduction in the investment in joint ventures and in retained

earnings of £3.2m, and as a consequence the income statement for the year ended 30 June 2009 has not been impacted. The prior period balance sheet at 30 June 2009 has been restated accordingly.

IFRIC 12 addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services where the infrastructure assets are not controlled by the operator. Under this interpretation infrastructure assets are not recognised as property, plant and equipment of the operator but recognised as a financial asset as the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the agreement. As a consequence of this treatment the operator now recognises investment income in respect of the financial asset on an effective interest basis. In addition, the timing of the profit recognition changes over the life of the contract with no change in the overall project cash flows arising therein.

Other than detailed above, the adoption of the remaining amendments and interpretations has not resulted in any significant changes to the Group's accounting policies and has not had a material impact on amounts reported for the current or prior years.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year ended 30 June 2010:

IFRS 2	'Amendments to share-based payments – group cash settled'
IFRS 9	'Financial instruments'
IAS 24	'Related party disclosures (revised 2009)'
IAS 32	'Amendments to financial instruments – classification of rights issues'
IAS 39	'Amendments to financial instruments – recognition and measurement: eligible hedged items'
IAS 39	'Amendments to financial instruments – recognition and measurement: embedded derivatives'
IAS 39	'Amendments to reclassification of financial assets: effective date and transition'
IFRIC 9	'Amendments to reassessment of embedded derivatives'
IFRIC 18	'Transfers of assets from customers'
IFRIC 19	'Extinguishing financial liabilities with equity instruments'.

The directors have considered the impact of the other new standards and interpretations in future periods and no significant impact is expected. The Group has chosen not to adopt any of the above standards and interpretations early.

Basis of consolidation

(a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 30 June 2010. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases. The purchase method is used to account for the acquisition of subsidiaries.

1 Significant accounting policies continued

(b) Joint ventures

A joint venture is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control with third parties.

The Group's interests in jointly controlled entities are accounted for using the equity method. Under this method the Group's share of the profits less losses of jointly controlled entities is included in the consolidated income statement and its interest in their net assets is included in investments in the consolidated balance sheet. Where the share of losses exceeds the Group's interest in the entity and there is no obligation to fund these losses the carrying amount is reduced to nil and recognition of further losses is discontinued; future profits are not recognised until unrecognised losses are extinguished. Interest in the entity is the carrying amount of the investment together with any long-term interests that, in substance, form part of the net investment in the entity.

Where a Group company is party to a jointly controlled operation, that company accounts for the assets it controls, the liabilities and expenses it incurs and its share of the income. Such joint arrangements are reported in the consolidated financial statements on the same basis.

Goodwill and other intangible assets

Goodwill arising on consolidation represents the excess of the consideration over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Negative goodwill is recognised in the income statement immediately. On disposal of a subsidiary or jointly controlled entity, the attributable carrying amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before 1 July 2004, being the date of transition to IFRS, has been retained at the previous UK GAAP amounts at 1 July 2004 subject to being tested for impairment. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other intangible assets which comprise contract rights are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to cost of sales in the income statement on a straight-line basis over the relevant contract period.

Exceptional items

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

Revenue and profit recognition

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

Revenue and profit are recognised as follows:

(a) Construction contracts

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

The general principles for profit recognition are as follows:

- profits on short duration contracts (generally less than 12 months) are taken when the contract is complete;
- profits on other contracts are recognised on a percentage of completion basis when the contract's outcome can be estimated reliably;
- provision is made for losses incurred or foreseen in bringing the contract to completion as soon as they become apparent; 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 but only to the extent that there is reasonable certainty of recovery.

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

(b) Support Services

Revenue and profit from services rendered is recognised when the service is provided.

(c) Private housing and land sales

Revenue from housing sales is recognised at the fair value of the consideration received or receivable on legal completion, net of incentives. Revenue from land sales and land exchanges is recognised on the unconditional exchange of contracts. Profit is recognised on a site-by-site basis by reference to the expected out-turn result from each site. The principal estimation technique used by the Group in attributing profit on sites to a particular period is the preparation of forecasts on a site-by-site basis. These focus on revenues and costs to complete and enable an assessment to be made of the final out-turn on each site. Consistent review procedures are in place in respect of site forecasting. Provision is made for any losses foreseen in completing a site as soon as they become apparent.

Notes to the consolidated financial statements

Continued

1 Significant accounting policies continued

(d) Property development

Revenue in respect of property developments is taken on unconditional exchange of contracts on disposal of finished developments. Profit taken is subject to any amounts necessary to cover residual commitments relating to development performance. Provision is made for any losses foreseen in completing a development as soon as they become apparent.

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

If a development is sold after construction and development works are completed revenue and profit are recognised in full at the point of sale.

(e) PFI service concession agreements

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

Pre-contract costs

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

When financial close is achieved on Private Finance Initiative (PFI) or Public Private Partnership (PPP) contracts, costs are recovered from the special purpose vehicle and pre-contract costs within this recovery that were not previously capitalised are credited to the income statement, except to the extent that the Group retains a share in the special purpose vehicle. The amount not credited is deferred and recognised over the life of the construction contract to which the costs relate.

Property, plant and equipment and depreciation

Depreciation is based on historical or deemed cost, less the estimated residual value, and the estimated economic lives of the assets concerned. Freehold land is not depreciated. Other tangible assets are depreciated in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

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

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

Leases

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

Employee benefits

(a) Retirement benefit obligations

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

For defined benefit pension schemes, the cost of providing benefits is calculated annually by independent actuaries using the projected unit credit method. The charge to the income statement reflects the current and past service costs of such obligations, and the interest cost on scheme liabilities less the expected return on plan assets.

The retirement benefit obligation represents the difference between the fair value of scheme assets and the present value of scheme liabilities. It is determined biannually by independent actuaries and recognised in full in the balance sheet. Differences between the actual and expected returns on assets and experience gains and losses arising on scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in full directly in reserves via the statement of comprehensive income in the year.

The recognised pension asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan expected at the balance sheet date.

The Group's contributions to the schemes are paid in accordance with the rules of the schemes and the recommendation of the actuary.

(b) Share-based payments

Share-based payments granted but not vested, are valued at the fair value of the shares at the date of grant. This affects the Sharesave and LTIP schemes. The fair value of these schemes at date of award is calculated using the Black-Scholes model.

The cost to the Group of awards to employees under the LTIP scheme is spread on a straight-line basis over the relevant performance criteria period. The scheme awards to senior employees a number of shares which will vest after three years if particular criteria are met. The Group has the option to make the awards either 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 fair 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.

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

1 Significant accounting policies continued

Finance income and costs

Interest receivable and payable on bank deposits is credited or charged to the income statement as incurred.

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

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

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

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Foreign currencies

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

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

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 costs. A tangible asset is created for an amount

equivalent to the initial provision and depreciated on a coal extraction basis over the life of the asset. Where there is a subsequent change in the estimate of restoration costs or discount rate, the present value of the change is recognised in the cost of the tangible asset with a corresponding change to the restoration provision. The resulting impact on the unwinding of the discount is recognised in the year of change.

Inventories

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

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

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

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

Finance lease receivables

Leases of assets where the Group has passed on substantially all the risks and rewards of ownership are classified as finance leases. When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method before tax which reflects a constant periodic rate of return.

Notes to the consolidated financial statements

Continued

1 Significant accounting policies continued

Share capital

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

Provisions

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

Financial instruments

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

(a) Trade receivables and trade payables

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

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

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

(b) Cash and cash equivalents

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

(c) Bank and other borrowings

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

(d) PFI assets

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

(e) Derivative financial instruments

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

The effective part of the change in fair value of these derivatives is recognised directly in equity. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate derivatives is the estimated amount that the Group would receive or pay to terminate the derivatives at the balance sheet date.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

The Group also enters into forward contracts in order to hedge against transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, changes in fair value of derivatives are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

Accounting estimates and judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, relate to revenue and profit recognition and the valuation of defined pension scheme assets and liabilities.

Revenue and profit recognition

Details on the estimation techniques used for revenue and profit recognition in respect of private housing and land sales, property development and construction contracts are given on pages 69 and 70.

Defined benefit pension scheme valuations

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

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

Details of the assumptions used are included in note 8.

2 Segmental reporting

The Group comprises four divisions: Construction, Support Services, Partnership Homes and Developments and it is on this basis that the Group reports its segmental information.

Segment information is based on the information provided to the chief executive who is the chief operating decision maker. The segments are strategic business units with separate management and have different core customers and offer different services. The segments are discussed in the chief executive's review on pages 6 to 34.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies on pages 68 to 72. The Group evaluates segment information on the basis of profit or loss from operations before interest and income tax expense. The segment results that are reported to the chief executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Year to 30 June 2010	Construction £m	Support Services £m	Partnership Homes £m	Developments £m	Centre £m	Group £m
Revenue¹						
Group and share of joint ventures	1,417.0	470.7	157.7	53.3	–	2,098.7
Less share of joint ventures	(1.7)	–	–	(41.0)	–	(42.7)
Group revenue	1,415.3	470.7	157.7	12.3	–	2,056.0
Profit						
Group operating profit	36.2	18.5	9.9	0.4	(7.2)	57.8
Share of joint ventures' operating profit	–	–	–	(0.1)	–	(0.1)
Group and share of joint ventures	36.2	18.5	9.9	0.3	(7.2)	57.7
Share of joint ventures – finance cost	–	–	–	(1.3)	–	(1.3)
– tax	–	–	–	0.1	–	0.1
Profit from operations before exceptional items	36.2	18.5	9.9	(0.9)	(7.2)	56.5
Past service credit on retirement benefit obligation	–	–	–	–	16.0	16.0
Provision for fine imposed by the Office of Fair Trading	(18.0)	–	–	–	–	(18.0)
Profit on disposal of joint ventures	–	–	–	4.2	–	4.2
Profit from operations	18.2	18.5	9.9	3.3	8.8	58.7
Finance income/(cost) ²	14.0	0.3	(13.2)	0.2	(2.3)	(1.0)
Profit before tax	32.2	18.8	(3.3)	3.5	6.5	57.7
Balance sheet						
Investment in joint ventures	0.1	–	–	23.8	–	23.9
Other assets	322.2	125.6	368.2	28.1	44.6	888.7
Liabilities excluding long-term debt	(631.9)	(129.3)	(39.4)	(18.6)	(164.4)	(983.6)
Net operating assets/(liabilities)	(309.6)	(3.7)	328.8	33.3	(119.8)	(71.0)
Cash, net of debt	417.8	32.3	(248.5)	(19.8)	(6.6)	175.2
Net assets	108.2	28.6	80.3	13.5	(126.4)	104.2
Other information						
Inter-segmental revenue	12.0	42.9	3.6	1.9	–	60.4
Amortisation of intangible assets	–	2.9	–	–	–	2.9
Capital expenditure	1.6	6.2	–	–	2.8	10.6
Depreciation of property, plant and equipment	6.5	6.4	0.2	–	1.6	14.7

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

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

Notes to the consolidated financial statements

Continued

2 Segmental reporting continued

Year to 30 June 2009 (restated) ¹	Construction £m	Support Services £m	Partnership Homes £m	Developments £m	Centre £m	Group £m
Revenue²						
Group and share of joint ventures	1,492.2	437.9	150.8	64.7	–	2,145.6
Less share of joint ventures	(2.4)	–	–	(31.3)	–	(33.7)
Group revenue	1,489.8	437.9	150.8	33.4	–	2,111.9
Profit						
Group operating profit	39.1	15.7	1.0	(2.8)	(2.9)	50.1
Share of joint ventures' operating profit	–	–	0.1	0.9	–	1.0
Group and share of joint ventures	39.1	15.7	1.1	(1.9)	(2.9)	51.1
Share of joint ventures – finance cost	–	–	–	(0.7)	–	(0.7)
– tax	–	–	–	(0.3)	–	(0.3)
Profit from operations before exceptional items	39.1	15.7	1.1	(2.9)	(2.9)	50.1
Curtailment on retirement benefit obligation	–	–	–	–	24.3	24.3
Land and work in progress write-downs	–	–	(42.5)	(7.3)	–	(49.8)
Joint venture tax on land and work in progress write-downs	–	–	–	1.5	–	1.5
Restructuring costs	–	–	(1.8)	–	–	(1.8)
Profit from operations	39.1	15.7	(43.2)	(8.7)	21.4	24.3
Finance income/(cost) ³	20.3	0.4	(19.2)	(1.0)	–	0.5
Profit before tax	59.4	16.1	(62.4)	(9.7)	21.4	24.8
Balance sheet						
Investment in joint ventures	0.1	–	–	30.3	–	30.4
Other assets	303.1	91.6	401.6	59.7	50.8	906.8
Liabilities excluding long-term debt	(588.5)	(104.3)	(62.0)	(8.0)	(177.6)	(940.4)
Net operating assets/(liabilities)	(285.3)	(12.7)	339.6	82.0	(126.8)	(3.2)
Cash, net of debt	399.7	36.7	(264.9)	(70.6)	(8.4)	92.5
Net assets	114.4	24.0	74.7	11.4	(135.2)	89.3
Other information						
Inter-segmental revenue	23.0	35.4	–	0.2	–	58.6
Amortisation of intangible assets	–	2.2	–	–	–	2.2
Capital expenditure	6.8	5.7	0.1	0.1	1.8	14.5
Depreciation of property, plant and equipment	5.4	7.5	0.5	–	1.2	14.6

¹ The balance sheet has been restated to reflect the adoption of IFRIC 12 which reduced net assets by £3.2m.

² Revenue is stated after the exclusion of inter-segmental revenue.

³ Interest was (charged)/credited to the divisions at a notional rate of 6.0% and 5.5%.

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

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

3 Profit for the year

Profit before taxation is stated after charging:

	2010 £m	2009 £m
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the annual accounts	0.1	0.1
Fees payable to the Company's auditor for other services:		
Audit of the Company's subsidiaries, pursuant to legislation	0.6	0.5
Taxation services	-	0.1
Other services	0.1	-
Hire of plant and machinery	16.7	22.9
Operating lease rentals:		
Land and buildings	3.5	3.5
Plant and machinery	9.1	8.7

4 Exceptional items

	2010 £m	2009 £m
Pension credits	16.0	24.3
Provision for fine imposed by the Office of Fair Trading	(18.0)	-
Profit on disposal of investment in joint ventures (note 28b)	4.2	-
Land and work in progress write-downs:		
Partnership Homes	-	(42.5)
Developments – Group	-	(2.0)
– Share of joint ventures	-	(5.3)
	-	(49.8)
Restructuring of the Partnership Homes division	-	(1.8)
Exceptional items before tax	2.2	(27.3)
Taxation		
Share of joint ventures	-	1.5
Group	(4.9)	6.1
	(4.9)	7.6
Exceptional items after tax	(2.7)	(19.7)

The pension credits arose:

In the current year a gain of £16.0m arose in the pension scheme in which the employees of Kier Sheffield LLP participate. This arose as a consequence of changes announced in the budget in June 2010 requiring public sector pension schemes to use the Consumer Prices Index (CPI) in place of the Retail Prices Index (RPI) to determine future pension increases.

During the prior year a credit of £24.3m arose in the Kier Group Pension Scheme as a consequence of the Board's decision to restrict pensionable salary increases to the lower of actual pay increases and the annual rate of increase in RPI.

Notes to the consolidated financial statements

Continued

4 Exceptional items continued

On 22 September 2009 the Group was fined £17.9m in respect of The Office of Fair Trading's investigation into cover pricing in the construction industry. The Group has lodged an appeal with the Competition Appeals Tribunal (CAT) and this was heard in June 2010. It is not expected that the CAT will conclude its findings and make a decision until the end of the calendar year. An exceptional provision has been made to reflect the fine as it currently stands.

During the prior year the carrying value of land and work in progress in Partnership Homes and Developments was written down to net realisable value as a result of a deterioration in market conditions.

The charges in the prior year in respect of restructuring consist principally of the costs arising from the announcement of closures of four of the six offices within the Partnership Homes division and the costs associated with staff redundancies.

5 Finance income and cost

	2010 £m	2009 £m
Finance income		
Interest receivable	3.1	5.3
Finance cost		
Interest payable on bank overdrafts and loans	(0.2)	(0.4)
Interest payable on long-term borrowings	(2.0)	(2.0)
Unwinding of discount on long-term liabilities	(1.9)	(2.4)
	(4.1)	(4.8)

6 Information relating to employees

	Note	2010 No	2009 No
Average number of persons employed during the year including executive directors was:			
United Kingdom		10,319	9,642
Rest of world		1,287	1,737
		11,606	11,379
£m			
Group staff costs are as follows:			
United Kingdom		372.4	367.1
Rest of world		8.9	22.4
		381.3	389.5
Comprising:			
Wages and salaries		326.4	338.4
Social security costs		28.9	30.5
Defined benefit pension scheme costs		11.9	10.4
Contributions to defined contribution pension schemes		12.6	11.1
Share-based payment plans	23	1.5	(0.9)
		381.3	389.5

7 Information relating to directors

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 56 to 61.

8 Retirement benefit obligations

The Group operates a number of pension schemes for eligible employees as disclosed below.

Kier Group Pension Scheme

This is the principal scheme and 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.

The defined benefit section of the Scheme was closed to new entrants on 1 January 2002; existing members continue to accrue benefits for future service.

An actuarial valuation of the Scheme was undertaken by the trustees' independent actuaries as at 1 July 2007 using the projected unit method. The market value of the Scheme's assets at that date were £508.9m which represented approximately 87% of the benefits that had accrued to members at that date, after allowing for future increases in salaries. The contributions paid during the year were £32.5m (2009: £20.2m) which include special contributions of £21.2m (2009: £8.0m) to fund the past service deficit.

An actuarial valuation is currently being undertaken by the trustees' independent actuaries as at 1 April 2010 using the projected unit method. It is not expected that the results of the valuation will be finalised until towards the end of the new financial year.

Going forward contributions will include an allowance for funding the past service deficit identified at the 2007 valuation date until the 2010 valuation is finalised when a revised allowance will be included. The Group expects to pay contributions for future service of £11.8m being 20.3% of pensionable pay plus £8.0m for funding the past service deficit in the year to June 2011.

The Pension Protection Fund (PPF) levy is payable in addition to the above contributions.

Following closure of the defined benefit section of the Scheme to new entrants most new employees are offered membership of the defined contribution section of the Kier Group Pension Scheme. The Group is required to pay contributions in respect of those employees in accordance with the rates specified in their contracts of employment. The contributions paid during the year and the pension charge, amounted to £6.0m (2009: £5.8m).

Kier Sheffield LLP

The Group participates in this 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, with assets and ongoing past service liabilities of £65.0m.

The scheme covers 1,146 employees who transferred from Sheffield Council's employment to Kier Sheffield LLP upon the start of the contract. New employees are offered membership of the defined contribution section of the Kier Group Pension Scheme. Kier Sheffield LLP is required to pay contributions in respect of these employees in accordance with the rates specified in their contracts of employment.

Kier Sheffield LLP's pension costs in respect of the defined benefit scheme are assessed on the advice of an independent qualified actuary using the projected unit method. The contributions paid during the year were £1.1m (2009: £1.1m). Going forward Kier Sheffield LLP expects to pay contributions for future service at the rate of 11.5% of pensionable pay which the fund's actuary has determined is sufficient to meet ongoing benefits.

Other schemes

Contributions are also made in respect of hourly paid operatives to an industry-wide stakeholder pension 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 during the year.

Notes to the consolidated financial statements

Continued

8 Retirement benefit obligations continued

IAS 19 'Employee Benefits' disclosures

Kier has adopted immediate recognition of any actuarial gains or losses through the statement of comprehensive income as permitted under IAS 19.

The principal assumptions used by the independent qualified actuaries and the expected rate of return on assets in providing the IAS 19 position as detailed below were:

Kier Group Pension Scheme

	2010 %	2009 %	2008 %
Rate of general increases in salaries	3.0	3.3	5.5
Rate of increase to pensions in payment liable for Limited Price Indexation	3.1	3.2	3.9
Discount rate	5.3	6.2	6.7
Inflation rate	3.2	3.3	4.0

The mortality assumptions adopted estimate life expectancies from age 60 for men and women of 25.6 years and 28.3 years respectively for a future pensioner.

	Long-term rate of return expected			Value		
	2010 %	2009 %	2008 %	2010 £m	2009 £m	2008 £m
Equities	7.6	7.8	8.5	477.1	415.6	349.7
Corporate bonds	-	-	5.5	-	-	100.3
Government bonds	4.1	4.3	5.0	134.1	82.8	88.4
Total market value of assets				611.2	498.4	538.4
Present value of liabilities				(689.8)	(594.5)	(584.1)
Deficit				(78.6)	(96.1)	(45.7)
Related deferred tax asset				22.0	26.9	12.8
Net pension liability				(56.6)	(69.2)	(32.9)

Kier Sheffield LLP

	2010 %	2009 %	2008 %
Rate of general increases in salaries	4.2	4.8	5.5
Rate of increase to pensions in payment liable for Limited Price Indexation	2.5	3.3	4.0
Discount rate	5.3	6.2	6.7
Inflation rate (RPI)	3.2	3.3	4.0
Inflation rate (CPI)	2.5	n/a	n/a

The mortality assumptions adopted estimate life expectancies from age 60 for men and women of 25.6 years and 28.3 years respectively for a future pensioner.

	Long-term rate of return expected			Value		
	2010 %	2009 %	2008 %	2010 £m	2009 £m	2008 £m
Equities	7.6	7.8	8.3	99.6	81.4	96.0
Corporate bonds	4.6	4.8	5.5	11.1	9.7	9.9
Government bonds	4.1	4.3	5.0	24.4	25.0	25.1
Total market value of assets				135.1	116.1	131.0
Present value of liabilities				(143.7)	(134.7)	(132.0)
Deficit				(8.6)	(18.6)	(1.0)
Related deferred tax asset				2.4	5.2	0.3
Net pension liability				(6.2)	(13.4)	(0.7)

8 Retirement benefit obligations continued

Pension sensitivity

The assumption considered to be the most significant is the discount rate adopted. If the discount rate were to increase by 0.1% the Kier Group Pension Scheme deficit would decrease by £10.8m, and the Kier Sheffield LLP deficit would decrease by £2.9m.

Amounts recognised in the financial statements in respect of these defined benefit schemes are as follows:

	2010			2009		
	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Total £m	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Total £m
(Charged)/credited to operating profit in the income statement						
Current service cost	(8.5)	(2.3)	(10.8)	(9.7)	(2.8)	(12.5)
Expected return on scheme assets	35.7	7.9	43.6	39.2	9.7	48.9
Interest cost on scheme liabilities	(36.3)	(8.4)	(44.7)	(37.9)	(8.9)	(46.8)
Past service credit	-	16.0	16.0	-	-	-
Credit on benefit curtailment	-	-	-	24.3	-	24.3
	(9.1)	13.2	4.1	15.9	(2.0)	13.9

Amount recognised in statement of comprehensive income

Actual return less expected return on assets	71.3	11.5	82.8	(77.4)	(25.9)	(103.3)
Experience gains and losses arising on liabilities	(77.2)	(15.8)	(93.0)	(9.1)	9.2	0.1
	(5.9)	(4.3)	(10.2)	(86.5)	(16.7)	(103.2)

Changes in the fair value of scheme assets

Fair value at 1 July	498.4	116.1	614.5	538.4	131.0	669.4
Expected return on scheme assets	35.7	7.9	43.6	39.2	9.7	48.9
Actual return less expected return on scheme assets	71.3	11.5	82.8	(77.4)	(25.9)	(103.3)
Contributions by the employer	32.5	1.1	33.6	20.2	1.1	21.3
Contributions by scheme participants	0.1	1.1	1.2	0.1	1.1	1.2
Net benefits paid out	(26.8)	(2.6)	(29.4)	(22.1)	(0.9)	(23.0)
Fair value at 30 June	611.2	135.1	746.3	498.4	116.1	614.5

Changes in the present value of the defined benefit obligation

Fair value at 1 July	(594.5)	(134.7)	(729.2)	(584.1)	(132.0)	(716.1)
Current service cost	(8.5)	(2.3)	(10.8)	(9.7)	(2.8)	(12.5)
Interest cost on scheme liabilities	(36.3)	(8.4)	(44.7)	(37.9)	(8.9)	(46.8)
Past service credit	-	16.0	16.0	-	-	-
Credit on benefit curtailment	-	-	-	24.3	-	24.3
Experience gains and losses on scheme liabilities	(77.2)	(15.8)	(93.0)	(9.1)	9.2	0.1
Contributions by scheme participants	(0.1)	(1.1)	(1.2)	(0.1)	(1.1)	(1.2)
Net benefits paid out	26.8	2.6	29.4	22.1	0.9	23.0
Fair value at 30 June	(689.8)	(143.7)	(833.5)	(594.5)	(134.7)	(729.2)

Amounts included in the balance sheet

Fair value of scheme assets	611.2	135.1	746.3	498.4	116.1	614.5
Net present value of the defined benefit obligation	(689.8)	(143.7)	(833.5)	(594.5)	(134.7)	(729.2)
Net deficit	(78.6)	(8.6)	(87.2)	(96.1)	(18.6)	(114.7)
Related deferred tax asset	22.0	2.4	24.4	26.9	5.2	32.1
Net pension liability	(56.6)	(6.2)	(62.8)	(69.2)	(13.4)	(82.6)

Notes to the consolidated financial statements

Continued

8 Retirement benefit obligations continued

History of experience gains and losses for defined benefit schemes in aggregate

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of scheme assets	746.3	614.5	669.4	643.4	586.3
Net present value of the defined benefit obligation	(833.5)	(729.2)	(716.1)	(662.1)	(646.5)
Restriction on pension surplus	–	–	–	(5.1)	–
Net deficit	(87.2)	(114.7)	(46.7)	(23.8)	(60.2)
Related deferred tax asset	24.4	32.1	13.1	6.8	18.1
Net pension liability	(62.8)	(82.6)	(33.6)	(17.0)	(42.1)
Difference between expected and actual return on assets	82.8	(103.3)	(15.5)	9.5	27.6
Experience gains and losses on scheme liabilities	(93.0)	0.1	(23.1)	18.1	2.4

In December 2009 the Group agreed to make a special cash contribution to the Kier Group Pension Scheme amounting to £13.2m which was settled through a transfer of residential land at market value as determined by DTZ an independent firm of chartered surveyors. This amount has been included as a contribution received by the Scheme.

The past service credit in the current year arose in the Kier Sheffield LLP Pension Scheme due to changes announced in the budget in June 2010 to use the CPI in place of the RPI to determine pension increases. This has been accounted for as a change in benefits and recognised in the income statement as an exceptional item. The potential effect of the change in the RPI to CPI on the Kier Group Pension Scheme is yet to be determined.

The credit on the benefit curtailment in the prior year arose in the Kier Group Pension Scheme as a consequence of the Board's decision to restrict pensionable salary increases to the lower of actual pay increases and the annual rate of increase in RPI. The previous valuations were based on salaries increasing at 1.5% above the rate of increase in RPI.

9 Income tax

a) Recognised in the income statement

	2010			2009		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Current tax expense						
UK corporation tax	8.3	0.4	8.7	12.0	(12.2)	(0.2)
Overseas tax	0.1	–	0.1	2.5	–	2.5
Adjustments for prior years	(0.3)	–	(0.3)	(2.2)	–	(2.2)
Total current tax	8.1	0.4	8.5	12.3	(12.2)	0.1
Deferred tax expense						
Origination and reversal of temporary differences	3.6	4.5	8.1	(0.6)	6.1	5.5
Adjustments for prior years	0.6	–	0.6	2.3	–	2.3
Total deferred tax	4.2	4.5	8.7	1.7	6.1	7.8
Total income tax expense in the income statement	12.3	4.9	17.2	14.0	(6.1)	7.9
Reconciliation of effective tax rate						
Profit before tax	55.5	2.2	57.7	50.6	(25.8)	24.8
Adjust: tax on joint ventures included above	(0.1)	–	(0.1)	0.3	(1.5)	(1.2)
Underlying profit before tax	55.4	2.2	57.6	50.9	(27.3)	23.6
Income tax at UK corporation tax rate of 28% (2009: 28%)	15.5	0.6	16.1	14.3	(7.6)	6.7
Non-deductible expenses	1.2	5.1	6.3	2.8	–	2.8
Tax relief on expenses not recognised in the income statement	(4.5)	–	(4.5)	(3.0)	–	(3.0)
Profits attributable to minority interest not taxable	(0.1)	–	(0.1)	(0.1)	–	(0.1)
Effect of tax rates in foreign jurisdictions	(0.1)	–	(0.1)	0.6	–	0.6
Capital gains not taxed	–	(0.8)	(0.8)	–	–	–
Tax losses utilised not recognised as a deferred tax asset	(0.1)	–	(0.1)	(0.4)	–	(0.4)
Under provision in respect of prior years	0.3	–	0.3	0.1	–	0.1
Total tax (including joint ventures)	12.2	4.9	17.1	14.3	(7.6)	6.7
Tax on joint ventures	0.1	–	0.1	(0.3)	1.5	1.2
Group income tax expense	12.3	4.9	17.2	14.0	(6.1)	7.9

Notes to the consolidated financial statements

Continued

9 Income tax continued

b) Recognised in the statement of comprehensive income

	2010 £m	2009 £m
Deferred tax expense		
Fair value movements on cash flow hedging instruments:		
Group	0.3	(0.6)
Joint ventures	(0.8)	(4.2)
Actuarial losses on defined benefit pension schemes	(2.9)	(28.9)
Total income tax credit in the statement of comprehensive income	(3.4)	(33.7)

c) Factors that may affect future tax charges

The emergency budget in June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. The first reduction from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011. This will reduce the Group's future current tax charge accordingly. If the rate change from 28% to 27% had been substantively enacted at 30 June 2010 it would have had the effect of reducing the net deferred tax asset of £21.5m (Group £21.2m, joint ventures £0.3m) held at this date by £1.4m, with £1.0m being credited to the income statement and £2.4m being charged directly to the statement of comprehensive income.

It has not been possible to quantify the full-anticipated effect of the announced further 3% rate reduction, although this will further reduce the Group's future current tax charge and reduce the deferred tax assets accordingly.

d) Tax losses

At the balance sheet date the Group has unused income tax losses of £2.5m (2009: £12.9m) available for offset against future profits. A deferred tax asset has been recognised in respect of £nil (2009: £10.0m) of income losses. No deferred tax asset has been recognised in respect of the remaining losses, due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

10 Dividends

Amounts recognised as distributions to equity holders in the year.

	2010 £m	2009 £m
Final dividend for the year ended 30 June 2009 of 37.0 pence (2008: 37.0 pence)	13.6	13.5
Interim dividend for the year ended 30 June 2010 of 18.5 pence (2009: 18.0 pence)	6.8	6.6
	20.4	20.1

The proposed final dividend of 39.5 pence (2009: 37.0 pence) bringing the total dividend for the year to 58.0 pence (2009: 55.0 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £14.6m will be paid on 26 November 2010 to shareholders on the register at the close of business on 24 September 2010. A scrip dividend alternative will be offered.

11 Earnings per share

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

	2010		2009	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	39.7	39.7	16.1	16.1
Exclude: exceptional items	(2.2)	(2.2)	25.8	25.8
Tax thereon	4.9	4.9	(6.1)	(6.1)
Underlying earnings	42.4	42.4	35.8	35.8
Add: amortisation of intangible assets	2.9	2.9	2.2	2.2
Less: tax on amortisation of intangible assets	(0.8)	(0.8)	(0.6)	(0.6)
Adjusted earnings	44.5	44.5	37.4	37.4
	million	million	million	million
Weighted average number of shares	36.7	36.7	36.5	36.5
Weighted average impact of LTIP and Sharesave Scheme	–	0.3	–	0.1
Weighted average number of shares used for earnings per share	36.7	37.0	36.5	36.6
	pence	pence	pence	pence
Earnings per share	108.2	107.3	44.1	44.0
Underlying earnings per share (excluding exceptional items)	115.5	114.6	98.1	97.8
Adjusted earnings per share (excluding exceptional items and the amortisation of intangible assets)	121.3	120.3	102.5	102.2

Notes to the consolidated financial statements

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12 Intangible assets

	Goodwill £m	Building maintenance contract rights £m	Other contract rights £m	Total £m
Cost				
At 1 July 2009	5.2	18.5	–	23.7
Acquired on acquisitions	5.5	6.5	7.2	19.2
Additions	–	4.1	–	4.1
Impairments	–	–	(3.9)	(3.9)
At 30 June 2010	10.7	29.1	3.3	43.1
Amortisation				
At 1 July 2009	–	12.5	–	12.5
Charge for the year	–	2.9	–	2.9
At 30 June 2010	–	15.4	–	15.4
Net book value				
At 30 June 2010	10.7	13.7	3.3	27.7
At 30 June 2009	5.2	6.0	–	11.2
Cost				
At 1 July 2008 and at 30 June 2009	5.2	18.5	–	23.7
Amortisation				
At 1 July 2008	–	10.3	–	10.3
Charge for the year	–	2.2	–	2.2
At 30 June 2009	–	12.5	–	12.5
Net book value				
At 30 June 2009	5.2	6.0	–	11.2
At 30 June 2008	5.2	8.2	–	13.4

Goodwill of £5.2m relates to the acquisition of Kier Partnership Homes Limited in 2002. The goodwill on acquisitions during the year relates to the acquisitions of the Kent LEP (£0.7m) and Pure Recycling Limited (£4.8m) (see note 28). These balances have been subject to an annual impairment review based upon projected profits of each business.

Building maintenance contract rights relate to the acquisition by the Group of the business and assets of the construction and building services operations of Sheffield City Council (£19.9m), Harlow Council (£0.8m), Stoke-on-Trent City Council (£1.9m) and North Tyneside Council (£6.5m). These are being amortised on a straight-line basis over the remaining lives of the contracts. These contracts are in partnership with the respective councils who have retained a participatory ownership interest and the rights for a minority share of the profits. These profit shares are reflected in the income statement as attributable to minority interests. The amounts for the year to June 2010 are, Sheffield City Council £0.3m (2009: £0.4m), Harlow Council £0.3m (2009: £0.3m), Stoke-on-Trent City Council £0.1m (2009: 0.1m) and North Tyneside Council £0.1m (2009: £nil).

Other contract rights relate to the acquisition of the Kent LEP (£5.2m) and Pure Recycling Limited (£2.0m) (see note 28). Due to the cancellation of further phases of the Kent BSF programme in June 2010 the contract rights of the Kent LEP have been impaired and written down by £3.9m at 30 June 2010. The remaining balances are being amortised on a straight-line basis over the lives of the contracts.

13 Property, plant and equipment

	Land and buildings £m	Plant, vehicles & fixtures £m	Mining assets £m	Total £m
Cost				
At 1 July 2009	39.4	104.7	22.6	166.7
Acquired on acquisitions	2.5	0.2	–	2.7
Additions	0.7	9.2	0.7	10.6
Disposals	–	(8.3)	–	(8.3)
Currency realignment	–	0.9	–	0.9
At 30 June 2010	42.6	106.7	23.3	172.6
Accumulated depreciation				
At 1 July 2009	2.8	60.6	16.4	79.8
Charge for the year	0.7	10.8	3.2	14.7
Disposals	–	(6.8)	–	(6.8)
Currency realignment	–	0.5	–	0.5
At 30 June 2010	3.5	65.1	19.6	88.2
Net book value				
At 30 June 2010	39.1	41.6	3.7	84.4
At 30 June 2009	36.6	44.1	6.2	86.9
Cost				
At 1 July 2008	43.2	103.8	18.6	165.6
Additions	1.8	9.5	3.2	14.5
Change in estimates	–	–	0.8	0.8
Disposals	(1.1)	(9.1)	–	(10.2)
Reclassifications	(3.8)	–	–	(3.8)
Write-offs	(0.7)	(1.1)	–	(1.8)
Currency realignment	–	1.6	–	1.6
At 30 June 2009	39.4	104.7	22.6	166.7
Accumulated depreciation				
At 1 July 2008	2.0	55.7	15.7	73.4
Charge for the year	1.3	12.6	0.7	14.6
Disposals	(0.1)	(7.2)	–	(7.3)
Reclassifications	(0.3)	–	–	(0.3)
Write-offs	(0.1)	(1.0)	–	(1.1)
Currency realignment	–	0.5	–	0.5
At 30 June 2009	2.8	60.6	16.4	79.8
Net book value				
At 30 June 2009	36.6	44.1	6.2	86.9
At 30 June 2008	41.2	48.1	2.9	92.2

Notes to the consolidated financial statements

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14 Investment in joint ventures

a) Movements in year

	2010 £m	2009 restated £m
Investment in joint ventures		
At 1 July	30.4	39.9
Impact of adoption of IFRIC 12	–	(3.2)
Additions	0.8	9.1
Loan repayments	(0.2)	(0.1)
Disposals	(2.9)	–
Share of trading results after taxation	(1.3)	–
Share of land and work in progress write-downs after taxation	–	(3.8)
Net expense recognised directly in equity	(2.9)	(15.3)
Deferred tax on items recognised directly in equity	0.8	4.2
Dividends received	(0.8)	(0.4)
At 30 June	23.9	30.4

b) Analysis of investment

	Kier Developments Limited £m	Other joint ventures £m	2010 Total £m	2009 restated Total £m
Investment in joint ventures				
Property, plant and equipment	8.7	3.6	12.3	10.6
Deferred tax assets	2.6	4.4	7.0	6.1
Other non-current assets	–	209.7	209.7	177.5
Current assets	72.5	31.7	104.2	92.7
Gross assets	83.8	249.4	333.2	286.9
Payables – current	(3.3)	(20.4)	(23.7)	(15.7)
Long-term borrowings	(82.4)	(215.3)	(297.7)	(258.7)
Financial instruments	(0.7)	(15.0)	(15.7)	(12.8)
Deferred tax liabilities	–	(6.7)	(6.7)	(7.0)
Net external assets	(2.6)	(8.0)	(10.6)	(7.3)
Loans provided to joint ventures	20.3	14.2	34.5	37.7
Total investment in joint ventures	17.7	6.2	23.9	30.4

The liabilities of the joint ventures are without recourse to the Group. Details of the Group's interests in joint ventures are given on page 103.

15 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting year.

	Intangible assets £m	Property plant and equipment £m	Short-term temporary differences £m	Retirement benefit obligations £m	Tax losses £m	Total £m
At 1 July 2008	–	(2.9)	(3.6)	13.1	–	6.6
(Charge)/credit to income	–	0.1	(0.8)	(9.9)	2.8	(7.8)
Credit direct to comprehensive income	–	–	0.6	28.9	–	29.5
Share-based payments charged to equity	–	–	0.3	–	–	0.3
At 30 June 2009	–	(2.8)	(3.5)	32.1	2.8	28.6
Acquired on acquisitions	(1.3)	–	–	–	–	(1.3)
(Charge)/credit to income	0.4	1.7	2.6	(10.6)	(2.8)	(8.7)
Credit/(charge) direct to comprehensive income	–	–	(0.3)	2.9	–	2.6
At 30 June 2010	(0.9)	(1.1)	(1.2)	24.4	–	21.2

Deferred tax assets and liabilities are attributed to temporary differences relating to the following

	Assets		Liabilities		Net	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Intangible assets	–	–	(0.9)	–	(0.9)	–
Property, plant and equipment	2.9	2.0	(4.0)	(4.8)	(1.1)	(2.8)
Inventories	2.3	2.5	(0.1)	(7.4)	2.2	(4.9)
Payables	14.5	8.4	(18.9)	(7.9)	(4.4)	0.5
Financial instruments	–	0.3	–	–	–	0.3
Retirement benefit obligations	24.4	32.1	–	–	24.4	32.1
Share-based payments	1.0	0.6	–	–	1.0	0.6
Tax losses	–	2.8	–	–	–	2.8
Total	45.1	48.7	(23.9)	(20.1)	21.2	28.6
Set-off tax	(20.7)	(16.6)	20.7	16.6	–	–
Net tax assets/(liabilities)	24.4	32.1	(3.2)	(3.5)	21.2	28.6

16 Inventories

	2010 £m	2009 £m
Raw materials and consumables	6.3	3.4
Construction contracts in progress	33.2	28.1
Land and work in progress held for development	359.0	386.7
Other work in progress	8.3	6.1
	406.8	424.3

Land and work in progress held for development at 30 June 2010 is shown after making provisions during the two years to June 2009 of £72.6m to reduce the values on certain sites to net realisable value (£69.1m Partnership Homes and £3.5m Developments).

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17 Construction contracts

Contracts in progress at the balance sheet date comprise contract costs incurred plus recognised profits less losses of £7,046.8m (2009: £6,190.7m), less progress billings received and receivable of £7,144.8m (2009: £6,301.7m).

The net balance is analysed into assets and liabilities as follows:

	2010 £m	2009 £m
Inventories	33.2	28.1
Trade and other payables	(131.1)	(139.1)
	(97.9)	(111.0)

18 Trade and other receivables

	2010 £m	2009 £m
Current:		
Trade receivables	248.7	215.4
Construction contract retentions	44.7	45.0
Amounts receivable from joint ventures	1.3	1.7
Other receivables	12.9	17.9
Prepayments and accrued income	22.5	16.7
	330.1	296.7
Non-current:		
Construction contract retentions	15.2	17.5
Finance lease receivables	-	31.3
Other receivables	0.1	0.2
	15.3	49.0

Finance lease receivables

During the prior year the Group entered into a 30-year lease arrangement with the Ministry of Justice. This transaction was recognised as a finance lease. In September 2009 this lease arrangement was sold to Prupim.

19 Cash, cash equivalents and borrowings

This note provides information about the contractual terms of the Group's bank balances, interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 25.

	2010 £m	2009 £m
Bank balances and cash in hand	186.8	84.3
Bank deposits with a maturity of less than three months	18.7	38.4
Cash and cash equivalents	205.5	122.7
Long-term borrowings	(30.3)	(30.2)
Net funds in the statement of cash flows	175.2	92.5

Long-term borrowings comprise a ten-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 ten years. Further information on these borrowings are detailed in note 25.

Cash and cash equivalents include £4.9m (2009: £6.2m) being the Group's share of cash and cash equivalents held by joint arrangements and £46.8m (2009: £40.5m) of cash that cannot be offset against other Group bank balances.

20 Trade and other payables

	2010 £m	2009 £m
Current:		
Payments received on account	0.3	8.6
Trade payables	554.4	504.7
Construction contract balances	131.1	139.1
Finance lease receivables (note 18)	–	0.2
Other taxation and social security costs	27.1	23.0
Other payables	15.6	13.1
Accruals and deferred income	83.0	81.0
	811.5	769.7
Non-current:		
Trade payables	14.1	9.5
Accruals and deferred income	5.5	3.9
	19.6	13.4

21 Provisions

	Restoration of mining sites £m	Other provisions £m	Total £m
At 1 July 2009	6.0	32.2	38.2
Utilised	(0.4)	(11.2)	(11.6)
Unwinding of discount	0.6	–	0.6
Additions	0.4	33.4	33.8
At 30 June 2010	6.6	54.4	61.0

Future outflows in respect of the restoration of mining sites are expected to occur over the next five years.

Other provisions include £18.0m for the fine imposed by the Office of Fair Trading. As detailed in note 4 the Group has lodged an appeal with the CAT against this fine. The timing of any future outflow is uncertain.

Other provisions include £17.3m (2009: £15.3m) held in the Group's captive insurance company. Due to the nature of the liabilities, the timing of any potential future outflows is uncertain.

Other provisions include £0.1m (2009: £1.3m) for the restructuring of the Partnership Homes division.

It is anticipated that the amounts provided will be utilised as follows:

	2010 £m	2009 £m
Due within one year	5.5	5.9
Due after one year	55.5	32.3
	61.0	38.2

Notes to the consolidated financial statements

Continued

22 Share capital and reserves

Share capital

The share capital of the Company comprises:

	2010		2009	
	Number	£m	Number	£m
Issued and fully paid of 1p each	37,477,386	0.4	37,221,869	0.4

During the year 255,517 ordinary shares were issued at a total premium of £2,687,000, of which 251,083 were issued as a scrip dividend alternative at a premium of £2,654,000 and 4,434 were issued under the Sharesave Scheme at a premium of £33,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Cash flow hedge reserve

This reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments related to hedged transactions that have not yet occurred, together with any related deferred taxation.

Translation reserve

This reserve comprises the cumulative difference on exchange arising from the retranslation of net investments in overseas subsidiary undertakings. In accordance with the transitional provisions of IFRS 1 this reserve was set to nil at July 2004.

23 Share-based payments

Options and awards over the Company's ordinary shares at 30 June 2010 were as follows:

	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	LTIP 2008 award	LTIP 2009 award	LTIP 2010 award	Total
Date of grant	25 May 2007	1 May 2008	17 April 2009	30 April 2010	16 October 2007	17 November 2008	13 October 2009	
Awards outstanding at 30 June 2010								
– directors	–	–	2,440	–	68,952	195,012	127,271	393,675
– employees	30,237	43,635	1,086,258	283,815	77,154	251,272	185,780	1,958,151
	30,237	43,635	1,088,698	283,815	146,106	446,284	313,051	2,351,826

Sharesave Scheme

Options were granted on 30 April 2010 at an exercise price of 1,025p. these are exercisable at the holders' discretion from 1 July 2013 until 1 January 2014.

23 Share-based payments *continued*

LTIP

Awards made under the scheme are normally able to vest following the third anniversary of the date of the grant. Vesting may be in full or in part (with the balance of the award lapsing), and is subject to the Group achieving specific performance targets.

The awards which are taken as shares are intended to be satisfied from the following shares held by the Kier Group 1999 Employee Benefit Trust rather than from the issue of new shares. These shares are accounted for as a deduction from retained earnings.

	2010		2009	
	Number of shares	£m	Number of shares	£m
At 1 July	525,837	9.3	654,137	13.6
Acquired during the year	848	0.0	87,439	0.7
Issued in satisfaction of awards	(4,021)	(0.1)	(215,739)	(5.0)
At 30 June	522,664	9.2	525,837	9.3

The market value of these shares at 30 June 2010 was £5.1m. The dividends on these shares have been waived.

A description of these schemes and the terms and conditions of each scheme are included in the directors' remuneration report on pages 57, 58 and 61.

Value of share schemes

The fair value per option granted has been calculated using the Black-Scholes model using the following assumptions:

	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	LTIP 2008 award	LTIP 2009 award	LTIP 2010 award
Date of grant	25 May 2007	1 May 2008	17 April 2009	30 April 2010	16 October 2007	17 November 2008	13 October 2009
Share price at grant	2,254p	1,166p	907p	1,140p	1,984p	780p	1,055p
Exercise price	2,500p	1,400p	750p	1,025p	nil	nil	nil
Option life	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Expected volatility	26.4%	34.7%	42.1%	42.4%	N/A	N/A	N/A
Dividend yield	1.2%	5.0%	6.1%	4.9%	2.5%	7.1%	5.1%
Risk-free interest rate	5.7%	4.4%	2.2%	1.7%	N/A	N/A	N/A
Value per option	445p	173p	237p	291p	1,840p	627p	928p

The value per option represents the fair value of the option less the consideration payable.

The expected volatility is based on historical volatility over the last three years. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

The total charge/(credit) for the year relating to share-based payment plans was:

	2010 £m	2009 £m
Equity-settled	1.4	(0.9)
Cash-settled including employer's national insurance	0.1	–
Total charge/(credit) recognised as employee costs	1.5	(0.9)

Included in the other payables is an amount of £0.2m (2009: £0.1m) relating to provisions for employer's national insurance and cash settled share-based payments.

Notes to the consolidated financial statements

Continued

23 Share-based payments continued

A reconciliation of option movements is shown below:

	Number of options 2010	Weighted average exercise price 2010	Number of options 2009	Weighted average exercise price 2009
Outstanding at 1 July	2,236,491	563.3p	1,120,722	743.0p
Forfeited	(504,118)	607.4p	(379,325)	1237.7p
Exercised	(8,455)	393.3p	(215,739)	nil
Granted	627,908	468.0p	1,710,833	524.1p
Outstanding at 30 June	2,351,826	529.0p	2,236,491	563.3p
Exercisable at 30 June	-	-	-	-

The options outstanding at 30 June 2010 have a weighted average contractual life of 2.2 years (2009: 2.7 years).

24 Guarantees and contingent liabilities

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

25 Financial instruments

Capital risk management

The Group and Company manage their capital to ensure their ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group and Company comprises: equity attributable to equity holders of Kier Group plc, consisting of issued share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity, and cash, cash equivalents and borrowings as disclosed in note 19.

The Group and Company maintain or adjust their capital structure through the payment of dividends to shareholders, issue of new shares and issuing or repaying borrowings. The Group's policy is to carry no significant debt, other than the non-recourse debt of joint ventures engaged in commercial property and PFI projects.

The Group's overall capital risk management strategy remains unchanged from 2009.

Financial risk management

Financial risk management is an integral part of the way the Group is managed. In the course of its business, the Group is exposed primarily to credit risk, market risk and liquidity risk. The overall aim of the Group's financial risk management policies is to minimise potential adverse effects on financial performance and net assets.

The Group's treasury department manages the principal financial risks within policies and operating parameters approved by the Board. Treasury is not a profit centre and does not enter into speculative transactions. Derivative financial instruments are used to hedge exposure to fluctuations in interest and exchange rates.

Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and interest rate and currency hedges.

Policies and procedures exist to ensure that customers have an appropriate credit history.

Short-term bank deposits and hedging transactions are executed only with highly credit-rated authorised counterparties based on ratings issued by the major ratings agencies. Counterparty exposure positions are monitored regularly so that credit exposures to any one counterparty are within predetermined limits. At the balance sheet date there were no significant concentrations of credit risk.

Trade and other receivables included in the balance sheet are stated net of a bad debt provision which has been estimated by management following a review of individual receivable accounts. There is no Group-wide rate of provision, and provision made for debts that are overdue is based on prior default experience and known factors at the balance sheet date. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable.

25 Financial instruments continued

An analysis of the provision held against trade receivables is set out below.

	2010 £m	2009 £m
Provision as at 1 July	3.6	1.6
Increase in provision during the year	4.2	2.5
Provision utilised during the year	-	-
Provision released during the year	(0.4)	(0.5)
Provision as at 30 June	7.4	3.6

There are £53.8m (2009: £43.8m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £40.2m (2009: £32.2m) had been received by the end of August 2010. There are no indications as at 30 June 2010 that the debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are overdue and unprovided. The proportion of trade receivables at 30 June 2010 that were overdue for payment was 21% (2009: 20%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Construction	50 days (2009: 41 days)
Support Services	29 days (2009: 26 days)

Overall, the Group considers that it is not exposed to a significant amount of credit risk.

Market risk

Interest rate risk

The Group has hedged part of its exposure to interest rate movements through a private placement of £30.3m of loan notes for ten years from February 2003, which bear interest on a fixed rate basis at 6.4% p.a. The balance of the Group's borrowings are to finance short-term working capital requirements. Such borrowings are subject to floating rates of interest linked to LIBOR.

In addition, a number of the Group's PFI and Developments joint ventures have entered into interest rate swaps.

Foreign currency risk

The Group operates primarily within the UK such that its exposure to currency risk is not considered to be significant.

Where foreign currency exposures are identified these are hedged using forward foreign exchange contracts.

Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund ongoing operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a group of core relationship banks in the form of unsecured committed borrowing facilities. The quantum of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels.

Derivative financial instruments

At 30 June 2010	Current liabilities £m	Non-current liabilities £m	Total liabilities £m
Fuel price forward contracts	0.2	0.1	0.3

Fuel price forward contracts have been accounted for as an ineffective cash flow hedge. The fair value of these contracts have been determined based on a level 3 valuation method, using valuation techniques that include inputs that are based on observable market data.

In addition to the above, a number of the Group's PFI joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. Interest-bearing debts and associated interest rate derivatives within these joint ventures have a typical term of between 25 and 30 years and are without recourse to the Group. At 30 June 2010 the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £178.5m. The Group's share of the total net fair value liability of these interest rate derivatives at 30 June 2010 based on quoted prices in active markets, amounted to £15.0m which, together with the related deferred tax asset of £4.2m, have met the criteria for hedge accounting and as a result have been recognised directly in equity.

Notes to the consolidated financial statements

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25 Financial instruments continued

Financial assets – analysis by currency and maturity dates

At 30 June 2010 the Group had cash, and short-term deposits denominated in the following currencies:

	2010 £m	2009 £m
Currency:		
Sterling	200.1	117.2
US dollar	0.6	0.3
Euro	1.2	0.3
Other	3.6	4.9
Total	205.5	122.7

Financial liabilities – analysis of maturity dates

At 30 June 2010 the Group had financial liabilities as detailed below together with the maturity profile of their contractual cash flows:

	Trade payables £m	Long-term borrowings £m	Derivative financial instruments £m	Total £m
30 June 2010				
Carrying value	568.5	30.3	0.3	599.1
Contractual cash flows				
Less than one year	554.4	–	0.2	554.6
One to two years	9.9	–	0.1	10.0
Two to three years	1.9	30.3	–	32.2
Three to four years	1.8	–	–	1.8
Four to five years	0.8	–	–	0.8
More than five years	0.6	–	–	0.6
	569.4	30.3	0.3	600.0
30 June 2009				
Carrying value	514.2	30.2	0.9	545.3
Contractual cash flows				
Less than one year	504.7	–	0.6	505.3
One to two years	9.5	–	0.3	9.8
Three to four years	–	30.2	–	30.2
	514.2	30.2	0.9	545.3

There is no material difference between the carrying value and fair value of the Group's financial liabilities. The carrying value is calculated by discounting expected future cash flows.

The long-term borrowings represent a £17.0m UK sterling loan and a £13.4m US dollar loan, net of £0.1m 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% for the term of the loan. The Group has entered into interest payment and repayment swaps for the US dollar loan, which give an effective 6.4% fixed interest rate for the term of the loan.

25 Financial instruments continued

Borrowing facilities

The Group has £67.5m (2009: £97.5m) of unsecured committed borrowing facilities due for renewal as follows:

	Undrawn facility £m
2011	27.5
2014	40.0
	67.5

In addition the Group has £10.0m (2009: £12.5m) of unsecured overdraft facilities repayable on demand.

26 Financial and capital commitments

	2010 £m	2009 £m
Commitments for capital expenditure in subsidiaries	6.9	0.8
Commitments for equity and subordinate debt in PFI joint ventures	11.9	–
	18.8	0.8

Non-cancellable operating lease rentals are payable as follows:

	2010		2009	
	Property £m	Plant & machinery £m	Property £m	Plant & machinery £m
Within one year	3.0	10.8	1.2	1.8
Between one and five years	8.0	16.8	7.6	22.8
Over five years	7.4	–	14.2	–
	18.4	27.6	23.0	24.6

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period of 99 years. Vehicle leases typically run for a period of four years. None of the leases includes contingent rentals.

Notes to the consolidated financial statements

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27 Related parties

Identity of related parties

The Group has a related party relationship with its joint arrangements, joint ventures, key management personnel and pension schemes in which its employees participate.

Transactions with key management personnel

The Group's key management personnel are the executive and non-executive directors as identified in the directors' remuneration report on pages 56 to 61.

In addition to their salaries, the Group also provides non-cash benefits to directors and contributes to a post-employment defined benefit plan on their behalf.

Key management personnel also participate in the Group's share option programme (see note 23)

Key management personnel compensation comprised:

	2010 £m	2009 £m
Total emoluments as analysed in the directors remuneration report	3.3	2.8
Employers national insurance contributions	0.4	0.4
Total short-term employment benefits	3.7	3.2
Share-based payment charge/(credit)	0.3	(0.5)
	4.0	2.7

Transactions with pension schemes

Details of all transactions between the Group and pension schemes in which its employees participate are detailed in note 8.

Sales of goods to joint arrangements and joint ventures

	2010 £m	2009 £m
Construction services and materials	91.5	15.6
Staff and associated costs	0.3	15.4
Management services	1.7	1.4
	93.5	32.4

Amounts due from joint ventures are analysed below:

	2010 £m	2009 £m
Academy Services (Norwich) Limited	1.7	1.8
Academy Services (Oldham) Limited	2.5	2.6
Academy Services (Sheffield) Limited	2.7	2.8
Academy Services (Tendring) Limited	-	0.6
Academy Services (Waltham Forest) Limited	-	2.6
ASK (Greenwich) Limited	0.8	0.7
Information Resources (Bournemouth) Limited	0.7	0.7
Information Resources (Oldham) Limited	0.9	1.0
Justice Support Services (North Kent) Limited	1.7	1.7
Prospect Healthcare (Hinchingbrooke) Limited	1.2	1.2
Prospect Healthcare (Ipswich) Limited	1.4	1.5
Prospect Healthcare (Reading) Limited	1.7	1.7
Kier Developments Limited	20.3	20.3
Saudi Comedat Co.	0.2	0.2
	35.8	39.4

28 Acquisitions and disposals

a) Summary of consideration paid for acquisitions during the year

	2010 £m	2009 £m
Construction and building services operations of:		
North Tyneside Council	3.4	–
Sheffield City Council	–	1.4
Kent LEP	2.2	–
Pure Recycling	2.0	–
Hugh Bourn Developments (Wragby) Limited	0.5	12.6
Total	8.1	14.0

Acquisition of the business and assets of the construction and building services operation of North Tyneside Council

On 6 September 2009 the Group, through its subsidiary Kier North Tyneside Limited, acquired the business and assets of the building services operation of North Tyneside Council. The consideration, payable wholly in cash, was £6.9m representing the value of the net assets acquired (intangible assets £6.5m, property plant and equipment £0.1m and inventory £0.3m).

The consideration is payable as follows:

	£m
Total consideration payable	6.9
Paid at 30 June 2010	(3.4)
Unwinding of discount	0.1
Deferred at 30 June 2010	3.6

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

Acquisition of investment in Kent LEP

On 7 September 2009 the Group through its subsidiary Kier Project Investment Limited, purchased from Telereal Trillium, 64% of the equity of Kent Building Schools for the Future Local Education Partnership (Kent LEP) and a 71.8% interest in the PFI projects being carried out by Kent LEP.

The consideration for the purchase was £4.2m of which £2.2m was paid in cash in September 2009, the balance of £2.0m was conditional upon the funding being approved for the second phase of schools by the Kent LEP and has been subsequently written off at 30 June 2010 after the cancellation of this second phase.

The book and fair values of the identifiable net assets acquired and the goodwill arising from the transaction are as follows:

	Book value £m	Adjustments £m	Fair value £m
Intangible assets	–	5.2	5.2
Receivables	–	0.7	0.7
Payables	–	(1.7)	(1.7)
Deferred taxation	–	(0.7)	(0.7)
Identifiable net assets	–	3.5	3.5
Goodwill			0.7
Total consideration			4.2

Notes to the consolidated financial statements

Continued

28 Acquisitions and disposals continued

Acquisition of investment in Pure Recycling

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

The fair value of the consideration for the purchase was £7.1m of which £2.0m was paid in cash in May 2010. The balance of £5.1m is contingent on the completion of certain events and on the results of the business acquired and is due in instalments by October 2016. It has been discounted to its present value of £4.4m.

The book and fair values of the identifiable net assets acquired and the goodwill arising from the transaction are as follows:

	Book value £m	Adjustments £m	Fair value £m
Intangible assets	–	2.0	2.0
Tangible assets	2.2	0.4	2.6
Receivables	0.8	–	0.8
Payables	(3.2)	–	(3.2)
Deferred taxation	–	(0.6)	(0.6)
Identifiable net assets	(0.2)	1.8	1.6
Goodwill			4.8
Total consideration			6.4

Acquisition of Hugh Bourn Developments (Wragby) Limited

On 31 July 2006 the Group acquired the entire share capital of Hugh Bourn Developments (Wragby) Limited. The consideration, payable wholly in cash, was £46.8m representing the value of the net assets acquired.

The consideration was payable as follows:

	£m
Paid at 30 June 2009	49.7
Final payment made during the year ended 30 June 2010	0.5
Unwinding of discount	(3.4)
	46.8

b) Disposal of investments in joint ventures

In December 2009 the Group, through its subsidiary Kier Project Investment Limited, sold its investments in two PFI projects, Waltham Forest Schools and Tendring Schools for a combined cash consideration of £7.3m, received in full in December 2009.

The disposal proceeds can be reconciled to the profit on disposal of £4.2m as follows:

	£m
Sales proceeds	7.3
Book value of net assets and loans of joint ventures	(2.9)
Sale costs and loan interest receivable included in sales proceeds	(0.2)
Profit on disposal	4.2

Company balance sheet

At 30 June 2010

(registered company number 2708030)

	Notes	2010 £m	2009 £m
Fixed assets			
Investment in subsidiary undertakings	5	105.3	105.3
Current assets			
Debtors	6	4.6	6.4
Cash at bank and in hand		187.8	183.5
		192.4	189.9
Current liabilities			
Creditors – amounts falling due within one year	7	(206.6)	(216.0)
Net current liabilities		(14.2)	(26.1)
Total assets less current liabilities		91.1	79.2
Creditors – amounts falling due after more than one year	7	(30.3)	(30.2)
Net assets		60.8	49.0
Capital and reserves			
Called up share capital	8	0.4	0.4
Share premium account	9	38.8	36.1
Merger relief reserve	9	1.2	1.2
Capital redemption reserve	9	2.7	2.7
Share scheme reserve	9	(8.5)	(10.0)
Profit and loss account	9	26.2	18.6
Shareholders' funds	10	60.8	49.0

The financial statements were approved by the Board of directors on 15 September 2010 and were signed on its behalf by:

M P Sheffield

D E Mattar

Directors

Notes to the Company financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with UK GAAP.

A cash flow statement has not been presented as permitted by FRS 1 (revised) 'Cash flow statements'.

Fixed asset investments

Investments in subsidiary undertakings are included in the balance sheet at cost less any provision for diminution in value.

Deferred taxation

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

Own shares

The cost of the Company's investment in its own shares which comprise shares held by the Kier Group 1999 Employee Benefit Trust for the purpose of funding of the Company's share option plans, is shown as a reduction in shareholders' funds in retained earnings.

Share-based payments

The Company issues equity-settled share-based payments under the Sharesave and LTIP schemes. The fair value of these schemes at the date of grant is expressed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest.

Financial instruments

The Company's principal financial assets and liabilities are cash at bank and borrowings. Cash at bank is carried in the balance sheet at nominal value. Borrowings are recognised initially at fair value and subsequently at amortised cost.

The consolidated financial statements include disclosures in note 25 under IFRS 7 which comply with FRS 29 'Financial Instruments and Disclosures'. Consequently, the Company has taken advantage of certain exemptions in FRS 29 from the requirement to present separate financial instrument disclosures for the Company.

2 Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year.

The auditors' remuneration for audit services to the Company was £4,265 (2009: £4,050). No other services were provided to the Company.

3 Information relating to directors and employees

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 56 to 61. The Company has no other employees other than the directors.

4 Dividends

Details of the dividends paid by the Company are included in note 10 of the consolidated financial statements.

5 Fixed assets – investments

	£m
Cost at 1 July 2009 and 30 June 2010	105.3

6 Debtors

	2010 £m	2009 £m
Amounts falling due within one year:		
Other debtors	4.0	5.8
Corporation tax	0.6	0.6
	4.6	6.4

7 Creditors

	2010 £m	2009 £m
Amounts falling due within one year:		
Bank overdrafts and loans	181.7	189.5
Amounts due to subsidiary undertaking	20.2	20.3
Other creditors	4.7	6.2
	206.6	216.0
Amounts falling due after one year:		
Long-term borrowings	30.3	30.2

Long-term borrowings due after more than one year comprise borrowings in respect of a ten-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 ten years.

8 Share capital

Details of the share capital of the Company are included in note 22 of the consolidated financial statements.

9 Reserves

The movement in reserves is as follows:

	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Share scheme reserve £m	Profit & loss £m
At 30 June 2008	34.4	1.2	2.7	(11.8)	17.5
Issue of shares	1.7	–	–	–	–
Decrease in investment in own shares	–	–	–	4.3	–
Movement in provision for share-based payments	–	–	–	(2.5)	–
Profit for the year	–	–	–	–	21.2
Dividends paid	–	–	–	–	(20.1)
At 30 June 2009	36.1	1.2	2.7	(10.0)	18.6
Issue of shares	2.7	–	–	–	–
Decrease in investment in own shares	–	–	–	0.1	–
Movement in provision for share-based payments	–	–	–	1.4	–
Profit for the year	–	–	–	–	28.0
Dividends paid	–	–	–	–	(20.4)
At 30 June 2010	38.8	1.2	2.7	(8.5)	26.2

The balance on the share scheme reserve comprises the investment in own shares of £9.2m (2009: £9.3m), and a credit balance on the share scheme reserve of £0.7m (2009: debit balance £0.7m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment schemes are included in note 23 of the consolidated financial statements.

10 Reconciliation of movement in shareholders' funds

	2010 £m	2009 £m
Opening shareholders' funds	49.0	44.4
Profit for the year	28.0	21.2
Dividends paid	(20.4)	(20.1)
Issue of shares	2.7	1.7
Increase in investment in own shares	0.1	4.3
Movement in provision for share-based payments	1.4	(2.5)
Closing shareholders' funds	60.8	49.0

Principal operating subsidiaries and business units

Construction	<p>Kier Regional Limited Kier Build Kier Eastern Kier London Kier Marriott Kier Moss Kier Northern Kier Scotland/Kier North East Kier Southern Kier Western</p> <p>Kier Construction Limited</p> <p>Kier Technical Services</p>	Notes:
Support Services	<p>Kier Support Services Limited Kier Building Maintenance Kier Facilities Services Limited Kier Harlow Limited Kier Islington Limited Kier North Tyneside Limited Kier Plant Limited Kier Sheffield LLP Kier Stoke Limited Kier Street Services Pure Buildings Limited Pure Recycling Warwick Limited</p>	<p>i) Each company is registered in England and Wales and operates principally within the United Kingdom. Kier Construction Limited also operates in the Middle East and the Caribbean.</p> <p>ii) The Group has entered into partnership agreements with Harlow Council, North Tyneside Council, Sheffield City Council and Stoke-on-Trent City Council whereby the respective councils have a participating ownership interest and receive a minority share of the profits of Kier Harlow Limited, Kier North Tyneside Limited, Kier Sheffield LLP and Kier Stoke Limited.</p> <p>iii) The ordinary share capital of all other companies is wholly owned. Kier Group plc holds directly all the shares of Kier Limited and Kier Homes Limited. The shares of the other companies are held by subsidiary undertakings.</p>
Partnership Homes	<p>Kier Homes Limited Kier Partnership Homes Limited</p>	
Developments	<p>Kier Property Limited Kier Developments Limited (50% owned and accounted for as a joint venture) Kier Ventures Limited</p> <p>Kier Project Investment Limited</p> <p>Kier Asset Partnership Services Limited</p>	
Group Services	<p>Kier Limited</p>	

Principal joint arrangements and joint ventures

Joint arrangements

Construction

The following joint arrangements, in which the Group participation is between 30% and 50%, operate in the United Kingdom:

KMI Plus a joint arrangement between Kier Construction, J Murphy & Sons Limited, Interserve Project Services Limited and Mouchel Parkman Services Limited

KMI a joint arrangement between Kier Construction, J Murphy & Sons Limited and Interserve Project Services Limited

Joint ventures

Interest held

Construction

Incorporated and operating in the Kingdom of Saudi Arabia:

Saudi Comedat Co. 25%

Long-term concession holding under the Private Finance Initiative

Academy Services (Norwich) Holdings Limited	50%
Academy Services (Oldham) Holdings Limited	50%
Academy Services (Sheffield) Holdings Limited	50%
ASK (Holdings) Limited	50%
Information Resources (Holdings) Limited	50%
Information Resources (Oldham) Holdings Limited	50%
Justice Support Services (North Kent) Holdings Limited	42.5%
Justice Support Services (Norfolk and Suffolk) Holdings Limited	42.5%
Kent LEP1 Limited	64%
Kent PFI Holdings Company 1 Limited	71.8%
Prospect Healthcare (Hinchingsbrooke) Holdings Limited	50%
Prospect Healthcare (Ipswich) Holdings Limited	50%
Prospect Healthcare (Reading) Holdings Limited	50%

Commercial property development

Kier Developments Limited	50%
Solum Regeneration LP	50%

Notes:

- i) 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.
- iii) Interests in the above joint ventures are held by subsidiary undertakings.

Financial record

Year ended 30 June	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Revenue: Group and share of joint ventures	2,098.7	2,145.6	2,374.2	2,127.9	1,838.3
Group operating profit	57.8	50.1	82.9	74.9	56.0
Joint ventures – share of operating profit	(0.1)	1.0	4.4	7.3	7.2
Total finance cost net	(2.3)	(0.2)	0.9	(3.2)	(2.7)
Joint venture tax	0.1	(0.3)	(1.1)	(1.4)	(1.4)
Profit before tax before exceptional items	55.5	50.6	87.1	77.6	59.1
Exceptional items	2.2	(25.8)	(23.7)	–	–
Profit before tax	57.7	24.8	63.4	77.6	59.1
Income tax	(17.2)	(7.9)	(15.2)	(21.3)	(16.2)
Profit for the year	40.5	16.9	48.2	56.3	42.9
Earnings per share					
– undiluted	108.2p	44.1p	130.7p	155.0p	120.8p
Dividend per share	58.0p	55.0p	55.0p	50.0p	26.0p
At 30 June					
Shareholders' funds	£104.2m	£92.5m	£183.1m	£183.0m	£108.5m
Net assets per share	278.0p	248.5p	494.6p	500.4p	302.3p

Corporate information

Directors

P M White CBE FCA Chairman
M P Sheffield BSc CEng MICE Chief Executive
I M Lawson FCIOB
D E Mattar BSc FCA
R W Simkin BSc MRTPI
C V Geoghegan BA FRAeS
S W Leathes MA FCA
N P Winsor CEng FIET FIGEM

H E E Raven BA Secretary

S Bowcott BSc (appointed 1 July 2010)
R C Bailey BA ACA (appointed 1 October 2010)

Headquarters and Registered Office

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Bedfordshire
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Telephone: 01767 640111
www.kier.co.uk

Registered Number

England 2708030

Financial calendar

12 November 2010

Annual general meeting

26 November 2010

Payment of final dividend for 2009/10

February 2011

Announcement of half-year results
and interim dividend for 2010/11

April 2011

Payment of interim dividend

September 2011

Announcement of preliminary full-year results
and final dividend for 2010/11

Auditors

KPMG Audit Plc
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EC4Y 8BB

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1 Churchill Place
London
E14 5HP

HSBC

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321 Avebury Boulevard
Milton Keynes
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Lloyds Banking Group plc
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Royal Bank of Scotland PLC
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