Kier Group plc
Annual Report and Accounts
for the year ended 30 June 2005

Growth through integration

KIER GROUP

Kier Group plc is a leading construction, development and services group specialising in building and civil engineering, support services, private housebuilding, property development and the Private Finance Initiative. The Group employs 8,300 people worldwide and has an annual turnover in excess of £1.6bn.

Contents

Group highlights

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

+24.3%

Pre-tax profit
Pre-tax profit up 24.3% to £53.7m*
(2004: £43.2m)

+20.9%

Earnings per share
Earnings per share up 20.9% to 105.4p*
(2004: 87.2p)

+16.8%

Dividend per share
Dividend per share up 16.8% to 22.2p
(2004: 19.0p)

£1.03bn

Construction order books
Construction order books at £1.03bn with improving quality and higher proportion of negotiated and partnered contracts

43%

Homes order book plus completions to 31 August 2005
Homes order book plus completions to 31 August 2005 together secure 43% of budgeted full-year sales

* Results are shown before exceptional profits of £6.7m and after adding back £2.5m (2004: £2.6m) relating to goodwill amortisation.

An integrated approach

By combining the skills of our businesses, Kier has a winning formula for the delivery of development schemes through a single source. These include property developments, mixed-use schemes and Private Finance Initiative projects where Kier draws together the necessary skills to provide a total solution to clients.

Construction

A comprehensive building service delivered through a nationwide network of locally managed businesses complemented by a major projects and social housing capability. Civil engineering and mining in the UK and overseas.

Support Services

Comprehensive facilities management, reactive and planned building maintenance, M&E design & installation, plant hire and other outsourced services for both private and public sectors.

Residential

High quality private housebuilding through well respected and locally established brands.

Property

Commercial property development with capacity to maximise potential across a broad range of schemes.

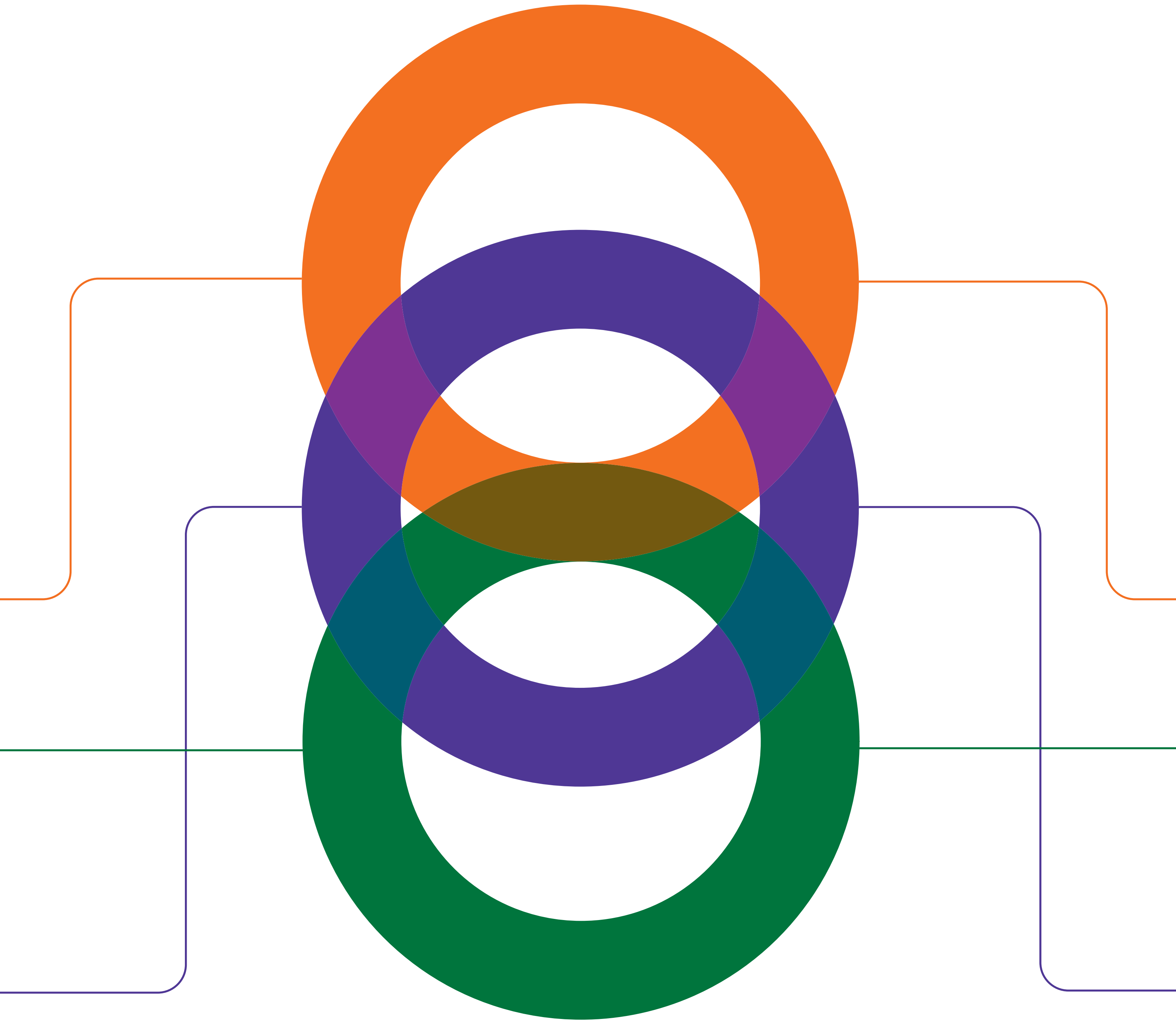
Project Investment

Promoting and managing the Group's interests in the Private Finance Initiative, bringing together Kier's expertise and resources in worldwide construction, property development, housing and facilities management.

The partner of choice

The benefits of the partnering process have long been recognised at Kier Group. While intra-Group teams are finding success using their combined resources and skills, other businesses within the Group are playing significant roles in innovative partnerships and alliances, lending their support and expertise to a wide range of schemes across all market sectors.

Partnering and joint venturing with Kier brings access to a raft of specialist resources including design engineering, plant hire services, planning, land remediation, brownfield regeneration, PFI initiatives, facilities management and more. As well as adding value to these kinds of projects through years of experience, Kier also brings a wealth of local knowledge through its strategic network of UK offices.



Building on success

Beyond its financial performance, a good measure of the Group's success is the high degree of work undertaken for repeat clients, evident across all divisions. Great emphasis is placed on the development of long-term client relationships and a strong focus on continuous improvement is maintained to ensure these highly-valued relationships remain firmly in place. Increased levels of cross-divisional activity have added a further dimension to the Group's capability, providing greater opportunity for the sharing of best practice both within the Group and with its supply chain, clients and professional partners.

Kier people

The key to Kier's success lies in the talent, commitment and professionalism of its employees. As an organisation that seeks to be innovative and to set high standards of excellence, recruiting and retaining the right people is paramount. Substantial investment in training and development remains a high priority to ensure that Kier employees are developed to their greatest potential and that the Group continues to attract talented individuals seeking a progressive career.

The content, structure and breadth of Kier Group's training modules mean they are amongst the best in the industry offering all employees from school leavers to board members continuous development within a Group focused on being the best in class.

Growth through integration

Project: Hinchingbrooke Treatment Centre

In 2004, Kier Project Investment and Innisfree joined forces to form Prospect Healthcare (Hinchingbrooke), a concession company to fund the construction of a new state-of-the-art treatment centre at Hinchingbrooke Hospital, providing a full range of diagnostic and clinical support services.

As part of the integrated service that Kier is able to offer, Kier Eastern built the centre, and Kier Managed Services is providing a full range of non-clinical services including cleaning, catering and portering, which will be delivered over a 28-year concessionary period.

The new two-storey centre will provide 8,500sq m of advanced diagnosis and treatment facilities for elective care, including audiology, dental, endoscopy and ophthalmology.

Completed in August 2005, the centre is expected to cater for up to 18,000 patients per year within the next five years, enabling the treatment of an additional 8,000 patients each year.

Chairman's statement

This is the first set of full-year results under my chairmanship and I am pleased that we have continued the pattern that was established under Colin Busby's stewardship with yet another record level of turnover and profit for the year to 30 June 2005, the 13th successive year of profits growth.

(continued opposite)

Turnover (£m)

2005	**1,621**
2004	1,477
2003	1,446
2002	1,383
2001	1,251

£1.37bn
Construction awards during year

£86.4m
Cash generation from operations

Pre-tax profits before exceptional items and goodwill have increased by 24.3% on 2004; construction awards were the highest ever at £1,372m (2004: £931m) and, once again, cash generation has been excellent with £86.4m produced from operations.

Financial performance
A strong performance was achieved in all the divisions. Turnover grew by 9.8% to £1,621.4m (2004: £1,476.5m), operating profit after deducting goodwill amortisation rose 25.4% to £53.4m (2004: £42.6m) and profit before tax (before exceptional profits) increased by 26.1% to £51.2m. The year-end net cash balance was £58.1m (2004: £7.6m).

Exceptional profits of £6.7m (2004: £nil) comprise £2.1m arising on the sale of our investment in the Neath Port Talbot Hospital concession, £3.8m on the sale of a fixed asset property and £0.8m arising on the sale of our remaining interest in Kier Hong Kong. Tax of £1.8m has been charged on the combined profit. In addition, whilst no profit has been recognised, an exceptional tax charge of £2.5m has arisen following refinancing and subsequent £8.1m cash extraction from the PFI investment vehicle for Hairmyres Hospital. Basic earnings per share, after all exceptional items, increased by 31.0% to 106.8p (2004: 81.5p). Adjusted earnings per share before goodwill amortisation and exceptional items increased by 20.9% to 105.4p (2004: 87.2p).

The Board proposes a final dividend for the year ended 30 June 2005 of 15.2p (2004: 13.0p) making 22.2p for the year (2004: 19.0p) an increase of 16.8% and covered 4.7 times by earnings per share before goodwill amortisation and exceptional items. The dividend will be paid on 6 December 2005 to shareholders on the register on 30 September 2005 and there will be a scrip alternative.

Shareholders' funds increased by £31.0m to £147.4m (2004: £116.4m). Pre-tax return on shareholders' funds was 43.9%, having been sustained at around this level for the last eight years.

International Financial Reporting Standards (IFRS)
This is the last set of results reported upon under UK Generally Accepted Accounting Practice. The interim results to 31 December 2005 and those that follow will be reported upon under IFRS. The results for the year to 30 June 2005 have also been restated under IFRS and, together with the restated balance sheet at 30 June 2005 and selective notes are disclosed on pages 76 to 83. The key points relating to the restatement are:

- The transition to IFRS has no impact on business operations, cash, financing or our ability to pay dividends;
- There is no impact on the profit recognition policy for Construction or Support Services and only minor impact on profit recognition for Housebuilding and Property; and
- The most significant effect of IFRS is in accounting for pensions which reduces stated net assets.

Appointments
I am pleased to announce that, with effect from 1 October 2005, Ian Lawson, managing director of Kier Support Services, and Paul Sheffield, deputy managing director of Kier Regional, will be joining the Board. Ian returned to the Group five years ago as managing director of our Infrastructure Investment business, having previously worked for Kier International. He joined the Regional board in 2003 and the Support Services board in 2004. Paul joined the Group as a graduate engineer 22 years ago. He has worked in the UK and overseas and was appointed managing director of Kier Construction in 2001, chairman of Kier Construction in 2003 and joined the Regional board in 2004. I am looking forward to working with Ian and Paul and am confident that they will both contribute strongly to the Board and to the future direction of the Group.

Following the restructuring of the Residential board we have appointed Michael O'Farrell, previously managing director of our subsidiary Allison Homes, as managing director of Kier Residential reporting to the Kier Group Board through the chief executive, John Dodds. With Mick's broad experience in housebuilding I am confident that he will make a significant contribution to the future growth of the Residential business.

Prospects and markets
We enter the year with record levels of work in hand in Construction and Support Services and a satisfactory order book in Homes. Our integrated business model continues to provide competitive advantage. I therefore anticipate further profitable growth in the current year.

Peter Warry
Chairman

Chief executive's review

The year has been an extremely busy one for Kier with record turnover and profit levels achieved by all the divisions. A growing proportion of our work has been secured from repeat business and negotiated contracts and an increasing amount is being generated from development schemes where two or more of the divisions within the Group are working together.

(continued opposite)

An example of this is at Whitehall where the office development for Defra was completed during the year by Kier Build, working for developer Kier Property, with Kier Managed Services carrying out the facilities management function. Further examples include PFI projects and other schemes involving Kier Residential and Kier Partnership Homes. This rare offering of a total solution to clients' increasingly complex requirements is providing us with some unique opportunities and an ability to attract new clients. I am confident that further value can be achieved from these markets.

Construction

The full-year results for the Construction segment have been analysed separately from those of Support Services for the first time. Our Construction segment includes Kier Regional, comprising Regional Contracting, Affordable Housing and Major Building Projects, and Kier Construction our Infrastructure and Overseas operation. Turnover from the Construction segment reached £1,096.2m, 8.8% up on 2004's £1,007.3m, fuelled by a good market and a strong supply of public sector work. Operating profit, before goodwill amortisation, increased by 35.7% to £15.6m (2004: £11.5m) and the operating margin increased from 1.1% to 1.4%. Cash generation has been exceptionally strong with cash balances at 30 June 2005 over £50m higher than the previous year end and average cash balances for the year £34m ahead. Contract awards were at a record £1,372m (2004: £931m) including a number of long-term framework contracts, providing a record order book of £1,030m at 30 June 2005 (2004: £662m).

The year to 30 June 2005 saw a number of records for Kier Regional: turnover at £954.6m was 10.0% ahead of 2004; year-end cash balances of £205m were £36m ahead; and contract awards at £1,018m compare favourably with the previous record set in 2004 of £845m.

The strength of Kier Regional lies in its wide network of UK construction businesses which combine local knowledge with national presence enabling it to respond to a wide range of markets and sectors. Through strategic alliances and frameworks with public sector clients it delivers a co-ordinated service through Kier Health, for ProCure21; Kier Custodial, for prisons; and Kier Education, for 'Building Schools for the Future'. Other local authority and housing association frameworks have also been established including those to deliver affordable housing. These frameworks and strategic alliances have contributed to an increase in public sector awards to 41% of the total, compared with 36% in 2004. In the private sector, where commercial and retail awards dominate, similar frameworks exist, for example, through Kier Retail, for clients such as Tesco, Waitrose and Morrisons. The proportion of total awards from negotiated and two-stage bids has increased to 59% in 2005 from 52% in 2004.

Kier Regional has started the new financial year with an order book of £647m (2004: £511m) comprising largely shorter-term contracts at an average value of £2.6m which provides protection against building cost inflation and maintains a low risk profile, a strategy that has been key to the success of this business. With this type and value of work in hand and a large volume of contracts pending award we anticipate further growth in the business during this financial year.

In the UK, the civil engineering arm of Kier Construction successfully completed a major section of the Channel Tunnel Rail Link and secured a Network Rail Structures Framework contract for the East Anglia region which is expected to provide £100m of work over five years. The water sector has provided further work through our second five-year framework agreement with United Utilities, in joint venture, which will provide £130m of work for Kier over the period. Our private opencast coal mine at Greenburn has now completed its first full year of production. So far 750,000 tonnes have been mined and over 60% of that remaining in the ground has been forward sold at favourable, fixed prices. Possible extensions to the mine are being explored which could extend the period of activity beyond the current anticipated completion date of 2009.

Overseas, our activities in the Caribbean are thriving with the award of a new hotel contract for Sandals in Antigua and a transportation centre in Kingston, Jamaica. Our long-term alliance with Alcoa continues on projects at alumina refineries in Suriname and Jamaica and we are set to play a further major role in Alcoa's worldwide capital expansion plans. During the year we sold our remaining shares in Kier Hong Kong which provided an exceptional profit of £0.8m. We maintain our relationships with local Hong Kong contractors which may, in time, lead to future joint venture opportunities in the Far East.

Support Services

Our Support Services business continues to prosper. Overall turnover increased by 15.1% to £227.5m (2004: £197.7m) and operating profit, after goodwill amortisation, rose to £3.2m; before goodwill it was £5.1m (2004: £4.7m) representing a margin of 2.2%. A number of contracts were awarded during the year resulting in a record order book of £1.2bn at 30 June 2005 (2004: £1.1bn).

Building Maintenance successfully implemented the Leeds North West and Leeds South repair and maintenance contracts with a combined value of over £10m per annum for the next five years, extendable for a further five. Kier Sheffield added to its, already successful, building maintenance contract by securing a share of the Sheffield Decent Homes framework contract which will provide us with around £160m of work over seven years. Other Decent Homes framework contracts were awarded at Islington for £40m and Greenwich for £7.5m, both over five years. New work is plentiful in this sector and we are hopeful of further awards in the current financial year.

In Managed Services the portfolio of services provided under the Private Finance Initiative continues to grow with the start of services

(continued on page 15)

Growth through integration
Project: Waltham Forest Schools

Academy Services, a partnership between Kier Project Investment and Dexia Public Finance Bank, is providing eight new schools for the London Borough of Waltham Forest. Three of Kier's regional construction businesses, Kier London, Kier Southern and Kier Eastern, are between them building one secondary and seven primary and infant schools in and around Waltham Forest under a £50m contract. Kier Group's M&E arm, IEI, is undertaking all M&E work for the eight schools. Kier Managed Services will be maintaining the new schools for a 30-year term when they open in summer 2006.

Chief executive's review
Continued

£1,030m
Record construction order book at 30 June 2005

1,215
Unit sales from housebuilding

at Essex, Harrow, Waltham Forest and Bexley Schools. We were pleased to have won 'Best Operational Health Scheme' in the UK for Neath Port Talbot Hospital in the Public Private Finance Awards for the standard of service provided to clients and the award for Best Operational Education Project for Pembroke Dock Community School.

Homes
Kier Residential came forward at 1 July 2004 with an exceptionally strong order book which provided a high level of unit sales for the six months to 31 December 2004. As predicted the number of unit sales was lower in the second half of the year. Full-year completions of 1,215 were 4.9% ahead of 2004's 1,158 at an average selling price of £181,700 (2004: £186,300) which provided turnover of £220.8m (2004: £215.7m) from housing sales. A land disposal, planned as part of a larger site, generated a further £4.7m of turnover at no profit or loss. The reduction in average selling prices year on year reflects both a 7% reduction in average unit size and an increase in the proportion of affordable housing sales from 5% of total sales in 2004 to 12% in 2005.

Operating profit increased by 7.2% to £34.1m (2004: £31.8m) at a margin of 15.4% on housing turnover (2004: 14.7%), benefiting during the period from a large strategic site at Royston which is now complete. Our Scottish-based business contributed strongly to the growth following the restructuring and strengthening of the local management team and assisted by a sound market.

During the year £69m was spent on selective land purchases and in June 2005 we acquired the land and work in progress of Ashwood Homes, in an off-market deal, for £23.5m of which £8.5m is deferred. Nine sites, located in Lincolnshire and Cambridgeshire, were acquired in the transaction comprising 389 units with planning consent. At 30 June 2005 the land-bank contained 5,178 units with planning consent (2004: 4,961) representing slightly more than our target holding of four years' unit sales. At 30 June 2005 we held approximately 12,000 units of strategic land, mostly under option, after achieving planning consent during the year for 550 units on a former Anglian Water site near the centre of Peterborough. Significant planning progress has also been made in delivering a site at Aylesbury, part of a mixed-use development area, which should provide us with 400 units for development. Strategic land is proving a valuable route for land acquisition. Historically approximately 18% of our annual unit sales have originated from this process.

Kier Residential is making good progress at Poole Harbour where contracts have been exchanged with Network Rail on a six-acre mixed-use development site. Work is about to commence, in conjunction with Kier Construction and Kier Property, to deliver a new hotel, 250 apartments and a new railway station. Other mixed-use projects include the former Shippams paste factory site in Chichester where planning consent has been granted for 165 apartments and 50,000sq ft of retail units for redevelopment in conjunction with Kier Property and Kier Regional.

The holiday period has, as always, resulted in fewer visitors to our sites, however, the ratio of visitors to sales has improved. Although purchasers are taking longer to make their decision, we have taken more reservations in the two months to 31 August 2005 than in the same period last year. Taken together the order book and completions to date are at a marginally lower level than last year reflecting the strong brought forward position at 1 July 2004. We will be selling from around 18% more outlets during the year compared with the year to 30 June 2005 and therefore we anticipate growth in unit sales for the full year of which 43% are already secure. The balance of unit sales is expected to be more heavily skewed towards the second half of the year than 2005.

Property
Kier Property continues to establish itself as one of the UK's leading commercial property developers. It has a development pipeline totalling 4m sq ft of space including offices, industrial, retail and mixed-use schemes

Chief executive's review
Continued

01 Kier Sheffield LLP was joint winner in the Local Government Chronical annual awards, private partnership category in recognition of its performance as part of a public/private partnership with Sheffield City Council.

02 The Group's 'Don't Walk By' campaign encourages employees to remain vigilant and point out any potential health & safety hazards. Prize draws are held at regular intervals giving participants the chance to win a Red Letter Day experience voucher.

03 Apprentices on the Twigden Homes' apprenticeship scheme, now in its fourth year. The scheme offers training in building trades including plumbing, bricklaying, carpentry, scaffolding, groundwork and dry lining.

with a future sales value of nearly £700m developed directly and through joint venture. In the year to 30 June 2005 Kier Property achieved a 29.6% increase in turnover to £60.4m (2004: £46.6m) and a 51.5% increase in operating profit to £10.0m (2004: £6.6m). The completion, by contractors Kier Regional, of the office developments at Whitehall for Defra and at Swindon for the National Trust during the year contributed strongly to the results. Also in the offices sector the 100,000sq ft head office for BAE subsidiary AMS was completed at Frimley Business Park and plans are in preparation for a further 300,000sq ft office scheme in the same location.

Under the Trade City industrial brand we acquired a site at Enfield for up to 50,000sq ft of industrial space and completed our sites at Bicester, Exeter and Romford.

In the retail sector we completed a further 75,000sq ft resource recovery unit at Waltham Park for J Sainsbury adjacent to the 700,000sq ft distribution centre completed for the same client some time ago. Further investment in retail included the acquisition of the 100,000sq ft Mannington Retail Park in Swindon which is let to national occupiers and includes valuable redevelopment and refurbishment opportunities.

In Reading town centre a 22-storey residential and retail development has been given the go-ahead and at Sunbury consent has been granted for a new hotel and 90 flats near to Kempton racecourse. More mixed-use opportunities are being bid for in conjunction with Kier Residential as well as other office, retail and industrial sites. In order to fund further expansion the bank facilities within the joint venture with the Bank of Scotland have been increased to £162m.

Infrastructure Investment

Our Infrastructure Investment business has continued to successfully bid and win work by drawing together the Group's PFI, construction and services activities under the banner of Kier. This formula has been a key factor in much of our success to date. Financial close was reached on a £50m scheme for Sheffield City Council in May 2005, our third schools project. Kier Regional has started construction on the four new schools and on completion Kier Managed Services will provide the services for the 25-year term. Our fourth schools project achieved preferred bidder status in July 2005 for five new schools and the refurbishment of one school in Norfolk. In health our fifth project was awarded preferred bidder status in February 2005 for a treatment centre in Ipswich. Upon financial close, expected in the New Year, Kier Regional will carry out the £26m construction project and Kier Managed Services will maintain it for 30 years after completion. Our response to the 'Building Schools for the Future' initiative is brought together under the Kier Education banner which achieved its first short-listing, in July 2005, as one of three bidding to Sheffield City Council.

As well as investing in new projects this year we have been developing the returns from our current portfolio. In August 2004 we refinanced our first PFI project, Hairmyres Hospital which provided us with £8.1m of cash after contributing 30% of the gain to the Lanarkshire Health Board. No profit can be recognised on the gain unless we dispose of the investment but tax is payable resulting in an exceptional tax charge of £2.5m in the accounts. In December 2004 we disposed of our 25.5% investment in the Neath Port Talbot Hospital concession to Secondary Market Infrastructure Fund UK LP. We received a cash consideration of £5.0m on the sale and generated an exceptional profit of £2.1m.

Following this disposal our portfolio of investments comprises 12 projects with a committed investment of £20.3m. As the secondary market for these investments develops there may be opportunity to realise future value from the portfolio.

Pensions

The FRS 17 deficit in the Kier Group Pension Scheme, after accounting for deferred tax, has increased during the year

+51.5%
Increase in Property operating profit

£20.3m
Committed investment in the PFI portfolio

from a net £67.2m to £82.6m at 30 June 2005. The market value of the scheme's assets rose by 21% whilst the present value of liabilities increased by 21%, largely resulting from a 0.9% reduction in the discount rate compared with the previous year. The assumptions for longevity have also changed contributing to an increase in the deficit. The Group has continued to take a responsible approach to the funding requirements of the pension fund and in March 2005, using the cash proceeds from refinancing the Hairmyres PFI investment and the sale of the investment in the Neath Port Talbot Hospital concession, the Group made a £12.0m special cash contribution to the pension fund, without which the deficit in the fund would have been greater. Under current accounting standards this contribution has no impact on operating profits and is treated as a prepayment in the accounts.

Other changes have been made to the way in which pension contributions are made which will result in savings to the Group and which are being contributed to the pension fund in addition to normal requirements.

Health & Safety

In an industry where incidents and accidents still occur, Kier Group health & safety standards are an integral part of the management process. The Group remains focused on the continuous improvement of health & safety standards throughout all parts of the business and supply chain and is determined to play its part in creating an industry that presents a healthy and safe working environment and is an attractive prospect for the employment of future generations. The Group's Accident Incidence Rate is 598 per 100,000 staff and subcontractors, comparing favourably with the Health & Safety Executive benchmark of 1,023.

The positive attitude displayed toward health & safety by Kier companies led to the award of one bronze, one silver and 17 gold RoSPA awards and 13 British Safety Council awards. We were also delighted that Kier Building Maintenance won the RoSPA 'Behavioural Safety and Best Practice' award which is a great achievement.

Kier people

I should like to thank each and every one of our employees for their contribution to the advancement of the Group. It is the continuing commitment, innovation, professionalism and integrity of our people that has made the Group the success it is today and I am confident that the high quality of our teams will take the Group forward to achieve further growth in the future.

Summary and prospects

Kier has had a very successful year, with strong performances achieved in all the divisions. Looking forward the Group is in excellent shape to continue its advancement. The Construction order book is at record levels containing a high proportion of good quality negotiated work and framework contracts. The local authority building maintenance outsourcing sector continues to provide our Support Services division with good opportunities. In Homes our land-bank consists of sites capable of delivering the right product in the right location which should provide further growth in unit sales this year. In Property our portfolio of office, retail and industrial developments continues to enhance value and we are investing further in new schemes; and in Infrastructure Investment we have developed a good pipeline of projects and remain committed to the Government's Private Finance Initiative. More opportunities are being presented to us where we are able to involve the many disciplines in the Group to provide mixed-use solutions to clients and a total in-house service.

Ours is a long-term business with firm foundations in place and I am confident that the Group will continue to deliver further growth in 2006 and beyond.

John Dodds
Chief Executive

Operating review

During the year to 30 June 2005 Kier Group businesses continued to demonstrate consistency in producing award winning schemes. A robust attitude towards teamwork is strongly in evidence as is the ability to add value as an inbuilt part of ongoing operations. Driven by the need to stay ahead in today's markets, Kier businesses are focused on continuous improvement which is reflected in outstanding performances across all divisions.

Construction

The Construction division comprises Kier Regional and Kier Construction. Kier Regional includes the Group's regional contracting businesses with probably the best comprehensive UK coverage of any contractor, operating through 32 offices; affordable housing, operating through Kier Partnership Homes; and major building projects, operating through Kier Build. Kier Construction includes the Group's infrastructure and overseas business. The Group also has an in-house engineering design capability in Kier Engineering Services.

Kier Regional

Kier Regional's strategically located network of UK construction businesses continues to bring a wealth of talent, diversity and local knowledge to all sectors of the UK construction market while adding value to a host of partnerships and frameworks across the Group. Locally established construction expertise is being brought to a series of PFI and PPP schemes and innovative projects around the UK to complement our integrated delivery capability that few can match.

The pattern of repeat business from long-standing clients, frameworks and negotiated and two-stage tenders has continued within Kier Regional and this year accounted for 59% of work secured. Whether delivering a standalone project or bringing strength as part of an all-Kier team, the Regional businesses have consistently demonstrated their flexibility, creativity and ability to deliver a standard of service and quality of product that underpins the longevity of their customer relationships and ability to attract new clients.

Regional contracting

In January, over 100 clients, consultants and subcontractors attended **Kier Eastern's** one-day conference, 'Greening the Supply Chain: Attainable? Sustainable?' covering topics such as the specification of 'green' materials and energy-efficient building design. This was followed up by a series of workshops to help members develop their own environmental management systems and to date 14 companies are participating.

Kier Eastern also completed several prestigious projects during the year including a bowling centre at RAF Mildenhall, offices for Liebherr (GB) in Biggleswade, Bedfordshire, a retail development in Dereham, Norfolk for Dencora and offices in Chelmsford for Countryside Properties.

Kier London had a very successful year in which it gained 'Investor in People' accreditation. Renewed confidence in the central London office market was evident with awards for schemes at Chiswell Street and Dorset Square being secured. A commercial scheme for Store Properties at Eastcheap was successfully handed over, and the recently completed UCL Molecular Science Building was highly commended in the London Borough of Camden Building Quality Awards 2005.

Kier London is working as part of an all-Kier team to deliver seven new schools for the London Borough of Waltham Forest and, together with Kier Eastern, is lined up to build the £26m PFI Garrett Anderson hospital in Ipswich for which Kier has been named preferred bidder. The business is also main contractor for the Barnet Mental Health Unit, a ProCure21 scheme, one of many framework contracts that now account for 25% of turnover.

Activity in the social housing sector was high and £36m of projects with Newlon Housing Association, as part of the 'Arsenal on the Move' development in north London, have been secured to date.

Notable projects completed by **Kier Northern** include a 498-bedroom student accommodation block for Unite in Leeds City Centre, a landmark 6th form college in Sheffield for the Learning and Skills Council, a hotel extension for Marriott Hotels in York which was completed to a challenging programme, and a series of rebadging projects for Morrisons following its acquisition of Safeway. Further ProCure21 and prison framework contracts have been secured and, as part of the East Durham Homes framework, the business is to undertake social housing refurbishment for East Durham Council. Kier Northern is working with Kier Project Investment, Kier Build and Kier Support Services in the delivery of the Sheffield Schools PFI scheme. The project to build a new sports centre in Carlisle was hit by devastating floods during the year, but is now back on target to meet the revised programme.

Both the Liverpool and Manchester offices of **Kier North West** had another year of successful operations across all the main construction sectors for both repeat and new clients with the potential to provide long-term business opportunities. A series of fast-track conversions of 14 former Safeway stores throughout the region continued the long-standing relationship with Morrisons Supermarkets.

The Southport Eco Centre, built during the year, won the 'Regeneration Award' in the North West Business Environment Awards 2005. The project is almost entirely self-sufficient, was built using low energy construction techniques, uses recycled rainwater and produces virtually no CO_2 emissions. Kier North West continues to work successfully with the Group's PFI company and Support Services division on the construction of the energy efficient PFI Library and Lifelong Leaning Centre in Oldham. The building was topped out by the Mayor of Oldham in June 2005 and will form a striking and sustainable contribution to the town for generations to come.

Kier Scotland continues its focus on providing main contracting services across the central belt of Scotland within all the principal market sectors on projects valued between £1m and £15m. The business completed construction of Robin House, a new special care hospice at Balloch for the Children's Hospice Association Scotland after the original contractor went into receivership. The client, design team and Kier Scotland worked closely together to deliver an exclusive, sustainable building,

Growth through integration
Project: Oldham Library and Lifelong Learning Centre

Information Resources, a Kier-led consortium, provided a high-technology library and lifelong learning centre under the Private Finance Initiative. Kier North West is building the library which incorporates a sedum-covered green roof and a unique copper-clad performance hall in a prominent location in Oldham town centre. The library facilities are operated and maintained by Kier Managed Services.

Operating review
Continued

Growth through integration
Project: Oxfam, Oxford

Built by Moss Construction, this project involved the creation of a new three-storey office block with associated parking for 300 cars and 200 cycles for the Oxford-based charity Oxfam. Signing up to Oxfam's 'Ethical Purchasing Policy', all Kier companies involved with the project ensured that all labour on site or those involved in the manufacture of components on site were properly employed. The building was constructed to eliminate PVC-based products and special measures were taken to ensure that all timber was FSC certificated or from sustainable sources. IEI installed the M&E services and Moss Joinery produced door sets and a bin store for the project.

Growth through integration
Project: Bristol Harbourside Development

At Crest Nicholson's Bristol Harbourside Development, Kier Build is working on two projects: a mixed-use retail and leisure scheme and a commercial office development while Kier Western is constructing a 182-bedroom hotel. Kier Plant is supplying the craneage.

within budget, to a high specification. This unique project is the largest to have been built within Scotland's biggest National Park at Loch Lomond where creativity, imagination and flair were used to overcome strict planning constraints.

Kier Southern completed construction of the Elmsleigh Shopping Centre in Staines, a project which used an innovative sliding temporary roof system to enable stores to trade while work progressed above. In recognition of his performance on a project to redevelop Staines Football Club, Kier Southern project manager Tony Mingoia won a gold medal in the leisure category of the Construction Manager of the Year awards.

The **Henry Jones** division ensured that a Waitrose Store in Havant was up and running just eight weeks after a devastating fire and is now completing renewal works while the store continues trading. A new diagnostics and treatment centre for St. Richard's Hospital in Chichester was also completed, described by Health Minister John Hutton as: "An excellent example of a well-planned modern facility," while offering congratulations to the team for opening on time and to budget. **Brazier Construction** completed a new store for Waitrose in Ringwood on behalf of John Lewis Partnership which was delighted with the finished building and the high standards of planning and organisation in its delivery. Work to build a new wing at St. Joseph's School Pastoral Hall was also successfully concluded and good progress is now being made on the 166-bed De Vere Village Hotel in Bournemouth. The partnered project with Hampshire County Council to build a new performing arts centre at Thornden School was highly commended in the Civic Trust Awards.

The year was a record one for **Kier Western**. Major strides were taken in the region in the expansion of relationships with the public sector on non-traditional forms of procurement such as frameworks and partnering agreements. This collaborative approach has delivered a broad mix of schemes in the education, health, commercial industrial and secure accommodation sectors.

Kier Western was awarded the region's largest single project, a £21m commercial scheme, under a PFI property outsourcing arrangement between the DVLA and Land Securities Trillium, to refurbish the DVLA headquarters building in Swansea in a multi-phased operation.

Marriott Construction completed the Shillington Slow Stream High Dependency unit at Bedford with the Kier Health team on time, within budget and defect-free and is in direct negotiations with the client regarding further phases at the site. Four respite care facilities for Shaw Homes in Northamptonshire totalling £14m were handed over and further discussions are taking place regarding further similar PFI and partnering projects.

The education sector has been fruitful for Marriott, contributing to record levels of turnover. Current projects include DeMontfort University, the University of Cambridge, Leicester University, Loughborough University and Nottingham Bluecoats School.

Moss Construction continued to build on its impressive track record in the construction of buildings with notable environmental and sustainable credentials. The striking new headquarters building on the Oxford Business Park for Oxfam was built in line with the charity's ethical purchasing policy. Red Kite House, Wallingford, provides new offices for the Environment Agency and has a BREEAM rating of 'excellent' as does the new central office for the National Trust at Swindon, another successful collaboration with Kier Property. In Cheltenham, new offices for the Chelsea Building Society are currently being constructed incorporating extensive geothermal heating.

Moss has partnered with Solihull Metropolitan Borough Council from conceptual design stage on a new special-needs school, one of several education projects carried out in the year. In addition, the company is one of several Kier Regional businesses delivering construction services throughout the UK as part of BT's 21st Century Network Programme. All of these projects have benefited extensively from Moss's ability to embrace innovation and to lead the design and construction teams in implementing buildable solutions to meet clients' needs.

Bromley and Maidstone-based **Wallis** had an excellent year with a large proportion of its work being negotiated or executed through partnering relationships. The business secured a framework agreement with Imperial College, London and the Maidstone office has been awarded its third framework job with Pillar Holdings at Orpington. Solid client relationships continue; a third contract has now been completed for the Manhattan Loft Corporation which involved construction of high specification flats on top of their existing building in west London and following the high quality refurbishment of Christ Church in Spitalfields, Wallis has secured another church restoration at Bloomsbury.

The **Longley** division of Wallis is working alongside Kier Southern on two schemes on the south coast to refurbish two fire-damaged stores for Tesco and Waitrose. In addition, the business has carried out a series of successful projects throughout Sussex and Surrey, predominately in the retail, care home and education sectors.

Affordable housing

Kier Partnership Homes continued to apply its expertise to many brownfield schemes in the affordable housing market and remains focused on the regeneration of run-down areas to create sustainable communities. The company's status as a valued partner, both in-house and externally, has strengthened further as the benefits of bringing together expertise from around the Group are now being recognised on a number of innovative schemes.

Growth through integration
Project: CTRL 103

Kier Construction's Channel Tunnel Rail Link (CTRL) 103 contract is the third undertaken for Union Railways. This Kier Construction and Nuttall joint venture comprises civil works to bring the high speed CTRL across the East Coast Main Line railway, over the A5200 York Way (an important central London highway), across Kings Cross Railway Lands and linking in with the Midland Mainline Railway works at St. Pancras station.

In keeping with previous CTRL contracts, under a partnering agreement this project benefits from collaborative working. Open book accounting, joint problem solving and full integration of the team generates a co-operative approach and a working environment which promotes success and achievement under difficult working conditions. Kier Plant supplied plant and machinery on this project.

Operating review
Continued

Growth through integration
Project: Bristol Harbourside Development

Designed by Kier Engineering Services (KES) for Kier Regional, a limpet cofferdam being lowered into position in Bristol Harbour.

The West Malling team has risen to a variety of construction challenges during the year at schemes in Dagenham, Enfield, Maidstone and Tottenham and has forged strong relationships with leading employers' agents and housing associations.

The Basingstoke team successfully concluded an award-winning project at Elvetham Heath in Fleet and another at Hanworth which involved a significant land remediation element.

The Aldridge team worked on a series of successful projects, secured a framework contract with the Metropolitan Housing Trust and are hopeful of further framework opportunities. Strong relationships were developed with Bromford Housing Group, West Mercian Housing Group and Waterloo Housing Association.

Building major projects
The division's major projects arm, **Kier Build** is making good progress on two commercial schemes in Bristol for Crest Nicholson which were recently topped out and two secondary schools in Sheffield under a £45m PFI scheme are well under way.

In Manchester, a £20m design & build residential scheme is progressing on behalf of Redrow Homes to build 207 one and two-bedroomed apartments. A major commercial scheme at 3-8 Whitehall Place, completed during the last year for Kier Property, has continued to receive recognition, picking up a bronze Considerate Constructors award and a sustainability award in the RICS London Region. Project manager Louisa Finlay has been short-listed in the CIOB Construction Manager of the Year awards.

Kier Construction
Infrastructure & Overseas
In a year that saw Kier Construction secure a significant amount of repeat business, demonstrate an excellent safety performance and successfully complete a major section of the Channel Tunnel Rail Link, the company provided further evidence of its status as a 'business partner of choice'.

In the UK, a second contract to create a waste treatment station for Shanks Waste Services was secured. The Rail division secured a £100m Network Rail Structures Framework contract for the East Anglia region and will be lending its expertise, alongside other Kier companies, in the major redevelopment of Poole Harbour.

The company's involvement with the Channel Tunnel Rail Link continues; tunnelling under the existing Thameslink section is now complete and the Midland Mainline Bridge has won a Structural Steelwork award. As part of KMI Water, the company's bid to deliver water and waste water process work in the north west of England until 2010 on behalf of United Utilities under Asset Management Programme 4 framework was successful, providing Kier with around £130m of work over five years. In joint venture with Besix, a major contract was secured for refurbishment and reinforcement of the South Hook LNG jetty in South Wales.

The mining division successfully completed its first full year of coal extraction at its opencast coal mine, Greenburn, in East Ayrshire. 750,000 tonnes have been mined and forward sales contracts secured to sell over 60% of the remaining tonnage at sensible fixed prices over the next four to five years.

Overseas, the Kier Mivan water supply contract in Romania has been extended and in Antigua, a contract was negotiated to extend the Sandals Hotel. In joint venture with Besix a contract to build a new transportation centre in Kingston, Jamaica was secured. A nine-year alliance with Alcoa on projects at alumina refineries in Suriname and Jamaica continues and the company is set to play a major role in Alcoa's capital expansion plans. Excellent safety performances have been achieved at both Alcoa sites.

Kier Engineering Services (KES)
KES, the Group's dedicated in-house engineering design team, provides temporary and permanent design solutions for Kier companies and joint venture projects. These highly qualified engineers specialise in the delivery of innovative solutions to add value and save cost without compromising safety or quality.

The department has continued to make a significant contribution to the Channel Tunnel Rail Link contract for the complex works near Kings Cross. Here demolition of the brick arch York Way Viaduct made way for construction of KES-designed temporary cofferdams and permanent retaining walls, and a difficult tunnelling operation below Regents Canal also benefited from KES advice. Kier Regional has applied KES expertise in overcoming difficult technical issues in the design of a special cofferdam to stick to the dock wall at Bristol, held on by the water pressure while men worked in the dry six metres below the surface to install pipework through the wall.

Permanent work design included structural alterations to Hinchingbrooke Hospital for Kier Regional and redesign of substructures for two waste processing plants for Kier Construction.

KES also provides advice on construction materials, a surveying service, in-house training courses to share their knowledge around the Group and design training within the department for Kier graduates.

Operating review
Continued

Growth through integration

Project: Robin House

Robin House, a new special care hospice at Balloch for the Children's Hospice Association Scotland built by Kier Scotland.

Growth through integration
Project: Uxbridge Business Park, Plot 2

A 60,000sq ft three-storey high-specification office development on the Uxbridge Business Park built by Moss Construction for Arlington Business Parks GP Ltd. The sophisticated and complex mechanical & electrical services were designed and installed by IEI.

Operating review
Continued

Kier Islington's award-winning First Start Scheme, for students between 14 and 19 years old, ran for the second time which saw 21 trainees graduate and the Duke of Gloucester visit the Islington depot to meet participants and trainers. Kier Islington managing director Jane Nelson and First Start trainee Juliannah Fawehinmi are pictured with the Duke.

Support Services

Kier's Support Services division operates through four business streams: IEI, a specialist mechanical and electrical design & installation business; Kier Building Maintenance, providing reactive and planned maintenance largely to local authority clients; Kier Managed Services (formerly Caxton) which provides facility management services to public and private clients; and Kier Plant, specialising in plant hire to Kier Group companies and external clients.

IEI

IEI has worked alongside several of its sister construction companies during the year to bring its expertise in the field of mechanical and electrical design & installation to a wide range of projects including the National Trust headquarters at Swindon, Oxfam's new Oxford headquarters and the Uxbridge Business Park.

The company secured a project to design & install a second phase of work for National Air Traffic Service's new facility on the south coast. M&E design & installation works were completed for LG Electronics in Slough on behalf of Slough Estates and a planned preventative and reactive maintenance contract with Sussex Police was renewed for a further five years.

The company's relationship within the public sector continued to expand during the year following appointments by Enfield Borough Council and Portsmouth City Council to carry out mechanical and electrical maintenance work.

Kier Building Maintenance (KBM)

The year saw the successful implementation of the Leeds North West and Leeds South repair and maintenance contracts valued at over £10m per year for the next five years extendable for a further five. As a company that takes pride in its contribution to Sheffield, KBM was delighted when Kier Sheffield, which is carrying out a £50m per annum repairs and maintenance contract for Sheffield City Council, was awarded joint winner of the prestigious Public Private Partnership of the Year award in the Local Government Chronicle annual awards.

As one of five partners, the company secured the Sheffield Decent Homes framework contract to deliver Decent Homes work providing KBM with around £160m over seven years.

Along with its supply chain partners, the company has made a significant investment in re-equipping its window and kitchen unit factory (Sharrow) in readiness for the provision of new kitchens and windows for over 40,000 homes. The company recognises the value of strengthening already strong, links with the local community through the development of training schemes such as JobMatch, City Stewardship and Modern Apprenticeships, which offer good career prospects to many youngsters in the area.

A string of awards and commendations gained during the year underline a solid performance by the Kier Islington team including an ISO 9001 accreditation for Quality Assurance and Investor in People status. The company played a key role in the division's success in winning the Allan Poole Trophy for outstanding achievement in 'Behavioural Safety', a national RoSPA award. Kier Islington's award-winning First Start Scheme for 14 to 19-year-old students ran for the second time which saw 21 trainees graduate and the Duke of Gloucester visit the Islington depot to meet participants and trainers.

The Ealing contract completed its first full year in March and the award of a five-year rolling maintenance contract valued at £4.5m per annum is now expected. Greenwich is now in its second successful year and a second extension has been confirmed, giving a further five years' business which now includes an additional £1.5m per annum of Decent Homes work. The company supported Homes for Islington, Islington Council's ALMO, to achieve a two-star rating, thus releasing much-needed funding to bring Islington housing stock up to the Decent Homes standard. The first tranche of the £40m Decent Homes framework agreement is now under way.

Every opportunity is taken to involve the local community and the fourth fun day attracted 2,000 tenants and leaseholders for a street party and a chance to provide feedback on the repairs service.

Kier Managed Services (KMS)

Caxton Facilities Management was rebranded in September 2005 to Kier Managed Services. KMS has continued to develop its PFI portfolio particularly in the healthcare, education and other public sectors. This year saw the start of services at Essex, Harrow, Waltham Forest and Bexley Schools as well as at Brighton Library, which opened during the year. All of these key PFI contracts include a combination of direct and managed services, life-cycle modelling and management.

During the year, KMS achieved recognition in the Public Private Finance Awards for the standard of services provided to clients, winning 'Best Operational Health Scheme in the UK' for Neath Port Talbot Hospital. KMS also won the award for the 'Best Operational Education Project' for Pembroke Dock Community School where extremely high levels of user satisfaction were recorded.

This year, the street services division began street cleaning in the London Borough of Bromley, complementing services already provided at Corby and the London Borough of Bexley. In the facilities management field, KMS saw turnover increase with client retention and sustained growth achieved in both public and private sectors.

Kier Plant

Kier Plant had another successful year supporting Kier Group companies and expanding its external client base. The fleet was strengthened by the addition of 17 tower cranes and a further £6m was invested in new equipment.

The site accommodation fleet was further strengthened and now numbers 3,200 units.

Operating review
Continued

Growth through integration

A 'Penbury' house type at 'The Grange' Langton Green in Royal Tunbridge Wells. This select development by Bellwinch Homes consists of just 18 apartments and houses.

A new 1.5-acre storage depot with workshops was opened in West Horndon, Essex and at the main depot at Setch in Norfolk, a new environmentally sound paint shop facility was installed to repaint cranes and site accommodation more efficiently.

During the year, a new framework agreement with Taylor Woodrow was established for the supply of tower cranes for the next five years and a new supply agreement was negotiated with European crane company Arcomet for the supply of rental cranes from its 1,000-strong fleet. A total of 215 tower crane installations and deinstallations have been completed on site during the past year, all without incident.

Residential

Kier Residential operates through four housebuilding companies and a strategic land business: Allison Homes operating throughout Lincolnshire and north Cambridgeshire; Bellwinch Homes operating in the south and south east; Kier Homes, operating across the central belt of Scotland; and Twigden Homes, operating in East Anglia and the West Midlands. Kier Land identifies brownfield and greenfield strategic opportunities, mostly under option, and progresses them through the planning process.

Kier Residential completed 1,215 units for the full year, 5% up on 2004's 1,158 units.

The division has been selective in replacing and growing its land-bank including the acquisition in June 2005 of 389 units with planning consent from the Ashwood Homes business. At 30 June 2005 the land-bank increased to 5,178 units with planning consent (2004: 4,961) representing just over four years' unit sales. Of this, 47% is from brownfield sites (2004: 34%). Kier has been selected by English Partnerships as one of 12 developers for the National Brownfield Strategy – Pilot Project National Developers Panel. This panel will assess the potential of brownfield sites in 14 pilot project areas, submit development proposals, work up full feasibility studies and secure sites for implementation.

Allison Homes enjoyed an eventful year in which planning permission was obtained for 550 units at Fengate, a former Anglian Water sewage site close to Peterborough City Centre. The company was the first housebuilder in the UK to receive recognition by the Health & Safety Executive in the recently launched 'worker engagement' initiative and was cited as an excellent example of how its commitment delivered improved performance in safety, defects, staff retention and competence. The company received a record number of NHBC 'Pride in the Job' awards and the Allison name appeared on two prestigious short lists: the 'Housebuilding Innovation Award' for its scheme at Elsea Park, Bourne; and the 'Health & Safety Initiative for Housebuilding' in the 2005 Health & Safety Awards.

In June the company, jointly with Twigden Homes, purchased the name and assets of Ashwood Homes which extends the company's operational area within Lincolnshire and north Cambridgeshire.

The year has been an exciting one for **Bellwinch Homes** which has been working alongside other parts of the Group to deliver a total solution for regeneration projects. With Kier Rail (Kier Construction), an exciting development at Poole Harbour is under way where a new hotel, car park and apartments are being built. Kier Rail is to move existing railway sidings to make way for the new scheme which also includes the provision of a new railway station. In partnership with Kier Property, the company is working on an innovative mixed-use scheme in Chichester.

The company picked up two NHBC Pride in the Job Awards and was runner-up in the Building Quality Awards in the 'best sustainability' category.

This year **Kier Homes** has undergone a strengthening and restructuring of the management team to accommodate its plans for future growth. The geographic spread has been expanded during the year and now encompasses the east and west of the central belt of Scotland.

The quality of product has received favourable recognition and Kier Homes showhouses at Smithstone Gate in Cumbernauld were awarded 'Showhome of the Season' in New Homes Locations, in conjunction with The Scotsman Newspaper Group.

Final legal completions were achieved at the company's successful development at Hairmyres in East Kilbride, the site upon which Kier Homes was founded.

At **Twigden Homes** the quality of product and design has attracted widespread acclaim during the year. Its development at The Fairways in Brampton, Cambridgeshire won a 2005 Greenleaf Award and its project at Fairfield Park in Bedfordshire was highly commended in the 2005 Evening Standard New Homes Awards for the 'Best New Development' category. The Gatehouse, the showhome at Fairfield Park, was runner-up in the 'Best Showhouse' category as voted by visitors to the Channel4.4homes website.

The Fairfield Park scheme was designed and built to an exacting Victorian design code and involved specialist construction techniques such as ornate dog-tooth brickwork, intricate stonemasonry and decorative chimney stacks. In contrast, another exciting development was the new 60-apartment landmark building, 'Magnon Court' in Leighton Buzzard, Bedfordshire that features a striking glass elevator at the main entrance and which illustrates the company's ability to create sympathetically-designed developments of outstanding quality.

Kier Land, in conjunction with Twigden Homes, has purchased land interests at Sandy and Bedford which will deliver 139 units for development. Substantial planning progress has been made in delivering a further site at Aylesbury which is part of a major mixed-use development area comprising 3,000 units of which 400 will be developed by Bellwinch Homes from 2006 onwards.

Property

Kier Property, the commercial property arm of the Group, continues to establish itself as one of the UK's leading commercial property developers. In barely three years, it has built up a portfolio – at various stages of the development pipeline – totalling around 4m sq ft of schemes including offices, industrial, retail and mixed-use projects, with a final sales value of nearly £700m.

During the year, growth continued with operating profits up 51%. The company's two key components, Kier Developments and Kier Ventures, have distinct shareholdings but are run simultaneously under the Kier Property umbrella and by the Kier Property team.

Kier Developments is the joint venture between Kier Group plc and Bank of Scotland, created to acquire Laing Property Developments in 2002. Since its inception, the relationship with Bank of Scotland has gone from strength to strength, culminating in an extension of the funding facility to £162m to accommodate the continual expansion of the business.

During the year, this expansion included the £17m acquisition of the Mannington Retail Park in Swindon. The 100,000sq ft park is let to major national occupiers including TK Maxx, Carpetright, Matalan and Allied Carpets. It includes 40,000sq ft of retail warehousing and stores of between 8,000sq ft and 16,000sq ft and with several leases due to expire shortly, plans are being drawn up to significantly refurbish and increase the value of the scheme. Also on the retail side, Kier continued to extract further value from the J Sainsbury's portfolio; during the year, work reached a conclusion on an 80,000sq ft retail park in Maidenhead, while planning permission was gained for a town centre development of 165 flats and 50,000sq ft of retail within the Roman Walls at Chichester.

The Trade City industrial brand had another highly successful year. Boosted by the success and occupier demand for Crown Road in Enfield, in January 2005 Kier purchased an adjacent site known as Carlton House, for another Trade City development. Plans for the 3.2-acre site include up to 100,000sq ft of Trade City space, with work expected to be completed by summer 2006. Other sites at Bicester, Exeter and Romford have all reached completion. Such has been their popularity, 1m sq ft of Trade City schemes have been developed or are under construction, of which over 50% have been pre-sold. Demand continues to intensify as the brand grows.

In the offices sector, the 100,000sq ft head office for BAE Subsidiary AMS was completed at the Frimley Business Park and plans are under way for a 300,000sq ft office scheme for future development at the site.

Looking ahead, many developments are set to come forward in the coming year and plans are being worked up for a number of projects, including a major mixed-use scheme close to Ashford town centre which will include over 700 new homes.

Kier Ventures, the Group's wholly owned subsidiary, continued to grow. At the flagship Waltham Point development a further 75,000 sq ft resource recovery unit was completed during the year for J Sainsbury's. Kier has already developed a 700,000sq ft regional distribution centre, one of the largest in the UK, for J Sainsbury's at the site. The investment was pre-sold to Morley Fund Management.

During the year, **Kier Ventures** completed two major public sector head office projects. The new 125,000sq ft Whitehall Place head office for Defra in London and 90,000sq ft National Trust HQ in Swindon have reached completion, to high acclaim. They were delivered on time and within budget, further demonstrating Kier's strength at working hand-in-hand with occupiers to deliver bespoke solutions to their property requirements. The one-stop-shop solution offered by Kier, saw Kier Build and Moss act as contractor on Whitehall Place and the National Trust respectively, with Kier Managed Services providing the facilities management. Both schemes received a BREEAM 'excellent' rating and Whitehall Place received an RICS sustainability award.

At Warth Park in Northamptonshire, over 250,000sq ft of additional deals were secured in early 2005 including new distribution depots for Robert Wiseman Dairies and Avery Dennison and a 150,000sq ft extension to Indesit's existing 320,000sq ft unit.

Kier Property has formed closer links with the residential companies within the Group and has identified a number of opportunities to work together in the coming year, adding value to the Group.

Infrastructure Investment

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

Financial close was reached on the £50m Sheffield Schools scheme with preferred bidder status being achieved on two others at Ipswich Hospital and Kent Police. The refinancing of Hairmyres Hospital in East Kilbride was completed during the year and the Group's investment in the Neath Port Talbot Hospital was sold. During the year two schools were constructed in Tendring, seven in Waltham Forest (of which two have been handed over) and work on four schools started in Sheffield. All are being built by Kier Regional businesses. Facilities management for all schools is being provided by Kier Managed Services as an integral part of the bid team.

Short-listed bids were submitted for two schools in Oldham and five schools in Norfolk; Kier has since been named preferred bidder for the latter, and the Group achieved its first short-listing for a Building Schools for the Future (BSF) project as one of three bidding to Sheffield City Council. A joint approach has been adopted

Growth through integration
Project: National Trust Headquarters

Moss Construction partnered with Kier Property (the developer) to secure a £14m design & build contract to provide a new headquarters building for the National Trust in Swindon for client Kier Ventures. The 80,000sq ft two-storey building constructed on a brownfield site previously occupied by Great Western Railway, is a model of crisp, functional architecture wedded to sustainable design. Moss played an active role in the design development from the outset, influencing buildability and playing a fundamental role in establishing systems to monitor the sustainability, achieving an 'Excellent' BREEAM rating that influenced all decisions in respect of material selection and sourcing. As part of the contract, IEI and Kier Managed Services were enlisted to provide a full M&E and building cleaning service, with an ongoing maintenance contract for the building being awarded. This high profile, unique project, was completed on time enabling occupation by the National Trust as programmed.

Operating review
Continued

for BSF involving KPI, Kier Regional and Kier Support Services under the Kier Education banner.

Oldham Library and Lifelong Learning Centre was recently topped out and is on programme to complete in early 2006. The new facility, which includes a copper-clad performance hall and a ‘green’ roof, has been acclaimed by the council as a great focal point for the Borough and an instantly recognisable part of the local landscape. Oldham’s interim director for children’s services Paul Makin, said: “The centre will become a hive of activity, a hub of creativity and an excellent place in which to learn and relax. I am pleased and proud that Oldham has embarked on such an initiative, taking the education and the development of the town into the 21st century.”

The delivery of care services continues to improve the quality of life for the elderly of Greenwich. Speaking at the formal opening in June Councillor Jagir Sekhon OBE, Greenwich Cabinet Member for Health, Adults and Older People said: “The Neighbourhood Resource Centres (NRCs) mean older people in Greenwich can avail themselves of the highest quality services that put their needs first. The NRCs are able to tailor the level of support for each resident, enabling everyone to have a full, active and independent life. This is part of the Council’s commitment to ensuring that we provide first class services for our elderly people who deserve no less.”

In the healthcare sector, the company is preferred bidder for the Ipswich Garrett Anderson Centre, and is looking to financial close in the New Year. Trust chairman Christine Smart said: “We are delighted to have reached this stage after many months of careful and detailed assessment. The Garrett Anderson Centre will transform healthcare for local people and is the biggest development at our hospital for more than thirty years.”

Kier Eastern will undertake construction and Kier Managed Services the facilities management. At Hinchingbrooke, construction of the diagnostic and treatment centre by Kier Eastern is now complete with handover achieved on time in August. Kier Managed Services is now providing non-clinical services for a 28-year term.

Key policies and services

Training and people development

The Group is committed to the lifelong development of all its employees. Its approach involves recruiting talented people into the industry, backed by a career development framework that supports people from entry level to senior leadership, preparing them to meet and exceed clients’ requirements. The career development framework incorporates a series of programmes, integral to which are the themes of customer focus, safety, professionalism, performance, teamwork and continual improvement.

Kier is committed to its equal opportunities policy that encourages job applications from all sectors of the community. This is demonstrated by the diversity of the people recruited. At the introductory part of its career development programme, Kier recruited its target of 55 new graduates and 57 students to start their professional careers with Kier. Kier offers an enviable graduate scheme with elements of technical and managerial training that help to motivate people in the Group to achieve their career goals and to attract high levels of new recruits. The Group continues to work with schools, colleges, universities and careers advisors to promote the construction industry as a career choice and has over 125 people currently studying for technical qualifications on various training schemes, having joined the Group as school leavers. Kier also has over 175 craft apprentices in construction skills. Over 10% of its workforce is on new entry training programmes, helping us to maintain and improve the talent of the workforce. This balanced approach will be enhanced further over the next year.

The Group actively encourages all employees to achieve full professional membership in their relevant discipline. To support this, the Group has in place a graduate development programme taking graduates to full membership in over 10 recognised professional institutions. During 2004 Kier introduced a supervisors programme for front-line managers from craft and non-academic backgrounds to achieve their professional standards and 80 front-line managers have been through this programme to date. In addition Kier has become a National Vocational Qualification (NVQ) centre and is recognised by the Joint Awarding Body as a model of best practice for the delivery of NVQs in construction management. As part of its commitment to achieve a fully qualified workforce Kier is rolling out NVQs for its professional and technical staff, leading the industry in the provision of such qualifications.

Safety training for all staff is a priority. Kier has introduced a comprehensive accredited safety training system covering all staff over the last year, with over 268 people attending the management section in the last six months. Technical training is based around the findings of various best practice groups and disseminates knowledge around the Group.

Kier has been running an Executive Leadership Programme based around defined competencies giving structured development to senior management and directors. This is also linked to the strategy of sharing best practice around the Group.

At 30 June 2005 over half of Kier businesses were recognised as ‘Investors in People’. Over this year the Group will continue to invest in the skills, competence and long-term potential of its workforce. It will continue to concentrate on all aspects of training and development provision in order to further improve its reputation as a leading employer and developer of people.

Health & Safety

As would be expected from a business whose diversity is one of its main strengths, Kier Group health & safety standards are an integral part of the management process. The Group remains focused on continuous improvement of health & safety standards

Operating review
Continued

Environmental key performance indicators

	Actual 03/04	**Actual 04/05**	Target 05/06
Waste as % of construction turnover:	0.30	**0.26**	0.23
Energy use £/m^2 (including Support Services)	10.29	**9.91**	9.44
CO_2 emissions (t) (including Support Services)	8,972	**8,412**	8,010
Environmental training days per person/year	0.13	**0.19**	0.25
Infringements	2	**0**	0

These figures now incorporate data from Construction, Support Services and Residential divisions

throughout all parts of the business and supply chain. Although an enviable health & safety record has been maintained over the years, the Group's resolve to continue to raise standards remains as strong as ever.

In an industry where incidents and accidents do still happen, Kier Group is determined to ensure that lessons are learned from mistakes made. The Group's current Accident Incident Rate per 100,000 staff and subcontractors at 30 June 2005 was 598 comparing favourably with the HSE benchmark of 1,023. Through its ongoing commitment to raising health & safety standards the Group will continue to contribute strongly to the creation of an industry that not only presents a healthy and safe working environment but is also one that is an attractive prospect for the employment of future generations.

Following a re-evaluation of future health & safety training needs, a purpose-built health & safety training centre was opened at the Kier Plant depot in Chawston, Bedfordshire and work is under way on a similar centre in Sheffield. Kier Group's review of health & safety training has paid dividends and a newly structured training policy is now starting to deliver higher standards than ever before.

In conjunction with the revised training programme, this year saw the re-launch of the 'Don't Walk By' campaign encouraging all members of the Group and its supply chain to take steps to ensure safer sites. Following documented reporting of potential near miss and dangerous situations report forms are entered into regular prize draws. As well as providing valuable information for the health & safety teams feedback from the reports is shared with all employees and supply chain members through a series of newsletters designed to keep the initiative fresh and most importantly, effective.

The positive attitude displayed toward health & safety throughout the Group has led to the receipt of 17 gold, one silver and one bronze RoSPA award and 13 British Safety Council Awards.

More recently Kier Building Maintenance was announced UK winner of the RoSPA 'Behavioural Safety and Best Practice' award and Kier Group's Construction division has been short-listed in the Silver Helmet Award for Health & Safety 2005.

One of the company's projects in Dubai recently achieved two million man hours without a lost time accident, the Kier/CCC joint venture for Alcoa at Jamalco achieved four million man hours while in Suriname over six million man hours was reached without a lost time accident.

Sustainability

The sustainability steering group plays a major part in guiding all Kier employees to remain strongly focused on the need to conduct their everyday operations with a sustainable future in mind. During the year, Kier businesses have demonstrated a strong commitment towards continuous improvement, including supply chain members. Kier Eastern's one-day, 'Greening the Supply Chain' conference attracted over 100 clients, consultants and subcontractors.

ISO 14001 environmental management standard has been achieved by the majority of Kier businesses with those not accredited making significant strides towards achieving the Group's goal of full accreditation. Participation in schemes such as Considerate Constructors is actively encouraged with various companies receiving recognition.

Each year, Kier Group companies compete for the hotly-contested Allam Award, an in-house initiative to recognise exceptional environmental performance. Last year this was awarded to Kier Eastern in recognition of its proactive approach to sharing best practice, with Bellwinch Homes a close second; the number and calibre of entries demonstrating that businesses throughout the Group have actively embraced the ethos of sustainable working.

A major commercial scheme at Whitehall Place, completed during the year by Kier Property, received a RICS London Region Sustainability Award and is a good example of the Group's ability to deliver excellence in BREEAM rated buildings. Other projects receiving recognition included Twigden Homes' 'Hunslet Mews' development in Northampton which received a Bronze prize for 'Best Sustainable Development' in the What House? Awards and the Southport Eco Centre, completed by Kier North West during the year won the 'Regeneration Award' in the North West Business Environment Awards 2005. Bellwinch Homes was runner-up in the sustainability category of the Building Quality Awards and Twigden Homes' development at The Fairways in Brampton, Cambridgeshire won a 2005 Greenleaf Award.

Kier's contribution to local communities has been active. Kier Sheffield offered good career prospects for many local youngsters through comprehensive training schemes such as JobMatch, City Stewardship and Modern Apprenticeships and Kier Islington's award-winning First Start Scheme for 14 to 19-year-old students ran for the second time in Islington which saw 21 trainees from the local community graduate.

Kier's deeply rooted and long-term commitment to the communities within which it operates, creates a unique set of circumstances that enables it to employ, train and develop local people to help all parties reach their mutual goals and contribute to the creation of thriving communities.

Having measured and monitored its environmental performance for the last three years, the Group is currently undertaking an independent review of its activities and will be reviewing these key performance indicators in due course.

Kier Group's Key performance indicators are summarised in the table above.

Growth through integration

Main picture: 'The Croft' three-storey showhome at Twigden Homes' Park Vale development at Hampton Vale in Peterborough, a development comprising one, two, three and four-bedroom homes.

Inset picture: Twigden's 'Nicholas' showhome at St. Barnabas Court in Cambridge City Centre, an exclusive development of just 19 luxury homes.

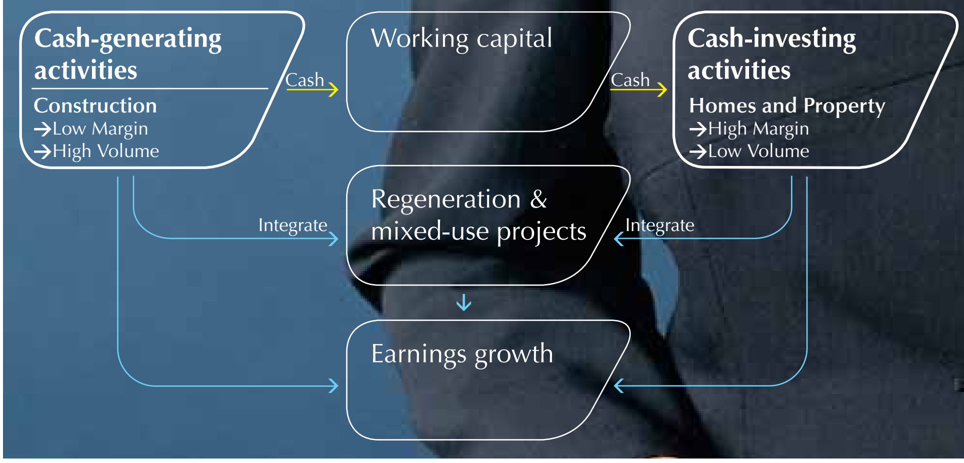
Financial review

Once again the Group has reported record results for the year. Profit before tax, excluding exceptional items and after deducting goodwill amortisation, increased by 26.1% to £51.2m (2004: £40.6m), earnings per share, on the same basis, increased by 22.7% to 100.0p (2004: 81.5p) and cash balances have been at healthy levels, ending the year at £58.1m net of borrowings (2004: £7.6m).

(continued opposite)

Kier integrated business model
Financially – cash generated from construction activities provides investment for homes and property operations.

Operationally – skills can be combined from various divisions to provide a totally integrated solution to clients' increasingly complex requirements.



+42.6%

Increase in profit before tax including exceptional profits and after deducting goodwill amortisation

+31.0%

Increase in undiluted, unadjusted earnings per share

This is the last set of results to be published under UK Generally Accepted Accounting Practice (UK GAAP). The Group has adopted International Financial Reporting Standards (IFRS) from 1 July 2005 and results published for periods after that date will be accounted for under IFRS. In order to provide an indication of the effects of IFRS on the Group's results, a restated income statement for the year ended 30 June 2005, balance sheets at 30 June 2005 and 2004 together with reconciliations from UK GAAP to IFRS are disclosed on pages 76 to 83. An explanation of the major differences is also given.

There have been no changes to accounting policies in drawing up the results and balance sheet and notes for the year ended 30 June 2005. The results for Construction and Support Services have been analysed separately for the first time with 2004 figures restated accordingly.

Profit before tax
A strong contribution from all the divisions resulted in profit before tax for the year of £57.9m (2004: £40.6m), arrived at after including exceptional profits of £6.7m (2004: £nil) and after deducting goodwill amortisation of £2.5m (2004: £2.6m). The exceptional profits include: £0.8m on the sale of the Group's remaining interest in Kier Hong Kong Limited; £3.8m on the sale of a property fixed asset; and £2.1m on the sale of the Group's interest in a PFI concession. Before exceptional profits and goodwill amortisation, profit for the year was £53.7m, 24.3% ahead of the result for 2004 of £43.2m.

Turnover, orders and land-bank
Group turnover increased by 9.8% to £1,621.4m (2004: £1,476.5m) with growth across all reporting segments.

The Construction segment saw an 8.8% growth in turnover during the year to £1,096.2m (2004: £1,007.3m) due to an increase in both public and private sector awards. A record level of awards was experienced during the year at £1,372m (2004: £931m) and at 30 June 2005 confirmed orders in hand were £1,030m (2004: £662m) supporting our growth plans for 2006.

In Support Services turnover exceeded the level beyond which we committed to providing a separate analysis of its results. Turnover was £227.5m (2004: £197.7m) with growth largely driven by the Building Maintenance division benefiting from new contracts including two for Leeds City Council. The order book at 30 June 2005 of £1,204m (2004: £1,168m) includes a number of long-term contracts awarded under PFI.

Turnover in the Homes division increased by 4.5% to £225.5m (2004: £215.7m) including a land sale of £4.7m. A combination of a 4.9% increase in unit sales to 1,215 (2004: 1,158) and a 2.5% reduction in average selling price to £181,700 (2004: £186,300) resulted in a 2.4% increase in turnover from housing sales. The reduction in average selling price during the year is the result of a combination of sales inflation offset by an increase in the proportion of lower value social housing sales (from 5% to 12%) and a reduction in average unit size. The land-bank at 30 June 2005 included 5,178 units with planning consent (2004: 4,961). £69m was spent on land during the year. In addition the acquisition of the business and assets of Ashwood Homes in mid June 2005 brought 389 units in to the land-bank at a cost of £23.5m of which £8.5m is deferred.

In addition to the consented land-bank, the Group owns or controls 12,000 plots of strategic land, mostly under option which will provide good land acquisition opportunities for the future. Looking forward to 2006, the key issue will be the health of the housing market. At 31 August 2005 the order book (reservations and exchanged contracts) and completions to that date together secured 43% of our full-year budgeted unit sales.

Financial review
Continued

In Property turnover arose from the sale of a number of joint venture developments and the sale of two office developments by our wholly owned business which is being recognised as construction progresses.

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

Operating profit, margins and return on capital

Group operating profit of £53.4m, after deducting goodwill amortisation, was 25.4% ahead of 2004's £42.6m with all divisions contributing.

Construction achieved a 37.6% increase in operating profit to £15.0m (2004: £10.9m). The Construction margin of 1.4% (2004: 1.1%), before goodwill amortisation, reflects a strong performance both across the Regional contracting division and in Infrastructure and Overseas both benefiting from a reduction in risk profiles resulting from an increase in framework agreements and negotiated and two-stage tendered work.

Support Services achieved an operating profit for the year of £3.2m (2004: £2.7m) after deducting goodwill amortisation of £1.9m (2004: £2.0m). Pre-goodwill the margin for the year was 2.2%, approaching the 3% target set for the medium term.

The Homes division saw a 7.2% increase in operating profit to £34.1m (2004: £31.8m). Operating margins on housing increased from 14.7% to 15.4% benefiting from one of our strategic sites, now completed, and management changes in Scotland. Return on capital was 15.2% (2004: 16.7%) reflecting higher levels of investment in the land-bank.

In Property operating profit increased strongly by 51.5% to £10.0m (2004: £6.6m) reflecting good profitable development sales in both our wholly owned subsidiaries and in the joint venture with Bank of Scotland.

Infrastructure Investment made an operating loss of £0.9m (2004: loss of £1.9m) after charging bidding and overhead costs of £2.7m (2004: £1.9m). Last year's result also included £1.5m of costs relating to refinancing Hairmyres Hospital.

Centre costs of £8.0m (2004: £7.5m) include a provision for the estimated applicable annual costs of the Long-Term Incentive Plan of £2.5m (2004: £2.0m).

Taxation

The tax charge of £20.1m includes £15.8m relating to profits before exceptional items and £4.3m relating to exceptional items. The charge on profits before exceptional items represents an effective tax rate of 30.9% (2004: 29.5%). The increase above the standard tax rate of 30% includes permanent differences such as entertaining and disallowable goodwill amortisation as well as higher tax rates payable in the PFI joint ventures. The exceptional tax of £4.3m includes £2.5m relating to refinancing one of the Group's PFI concessions which provided us with cash of £8.1m. No profit can be recognised in respect of the cash extracted but tax is payable.

Earnings per share and dividend

Undiluted, unadjusted earnings per share of 106.8p represent a 31.0% increase on 2004's 81.5p. Earnings per share adjusted to exclude exceptional items and goodwill amortisation of 105.4p represent a 20.9% increase on 2004's 87.2p.

The proposed final dividend of 15.2p (2004: 13.0p) makes 22.2p (2004: 19.0p) for the year, an increase of 16.8%; the eighth year in succession that the dividend has increased by at least 15%. The dividend is covered 4.7 times by adjusted earnings per share before exceptional items and goodwill.

Balance sheet and shareholders' funds

The balance sheet at 30 June 2005 includes goodwill of £16.1m (2004: £18.6m) relating to the acquisition of Partnerships First Limited and the outsourcing contract at Sheffield. This is being amortised over periods of up to 10 years, with £2.5m charged to profits in 2005 (2004: £2.6m).

Profit before tax (£m)
(Before exceptional items)

2005	51.2
2004	40.6
2003	33.3
2002	27.3
2001	21.9

Shareholders' funds have increased by £31.0m to £147.4m (2004: £116.4m) arising from retained profits of £29.9m, currency translation of £0.1m, movement in the share scheme reserve of £0.2m and the proceeds of the issue of 161,090 new shares of which 77,421 were issued in lieu of dividends and 83,669 to satisfy options maturing under the Performance Related Option Schemes.

Cash flow, facilities and foreign currency exposure

Net cash inflow from operating activities was £86.4m (2004: outflow of £3.7m).

At 30 June 2005 net Group funds were £58.1m. The principal items reconciling the opening cash position to that at 30 June 2005 are summarised below:

	£m
Opening net funds at 30 June 2004	**7.6**
Net cash inflow from operating activities	86.4
Non-operating inflows:	
Refinancing Hairmyres Hospital	8.1
Sale of a fixed asset property	4.7
Sale of investment in PFI concession	5.0
Sale of investment in Kier Hong Kong	0.8
Significant outflows:	
Acquisition of Ashwood	(15.0)
Other investments	(3.0)
Tax, dividends and financing	(17.9)
Capital expenditure (net)	(18.6)
Closing net funds at 30 June 2005	**58.1**

In August 2004 we refinanced one of our PFI projects, Hairmyres Hospital, which contributed £8.1m to Group funds, after sharing 30% with the Lanarkshire Health Board. In March 2005, using the proceeds of the refinancing and the proceeds arising from the sale of our investment in a PFI concession, we made an additional £12.0m contribution to the Kier Group Pension Scheme (this is included within cash inflow from operating activities).

Cash, net of debt, at 30 June 2005 includes £22.8m (2004: £23.8m) of cash which is not generally available for Group purposes, including that held by joint arrangements, overseas and by the captive insurance company. The liquid cash position is affected by seasonal, monthly and contract specific cycles. In order to accommodate these flows the Group maintains a range of bank facilities comprising £12.5m of overdraft facilities and £67.5m of committed, revolving credit facilities all on an unsecured basis.

Pensions

The financial statements reflect the transitional provisions of FRS 17 'Retirement Benefits'. The pension charge has been calculated in accordance with SSAP 24, and, as in previous years, it corresponds to the normal contributions paid by the Group during the year. The additional £12.0m contribution referred to above has been treated as an early settlement of future liabilities. Under FRS 17 calculations there is a net deficit in the Kier Group Pension Scheme of £82.6m (2004: £67.2m).

The market value of the scheme's assets and the present value of liabilities both increased by 21% causing an increase in the overall gross deficit in the Kier Group Pension Scheme of £22m. Liabilities increased largely as a result of a 0.9% reduction in the discount rate applied to long-term liabilities.

The Group also participates in another defined benefit scheme on behalf of its employees in Kier Sheffield LLP. At 30 June 2005 this scheme showed a net surplus of £1.8m (2004: £6.4m).

Deena Mattar
Finance Director

Earnings per share (pence)
(Before exceptional items)

2005	100.0
2004	81.5
2003	69.5
2002	58.3
2001	48.0

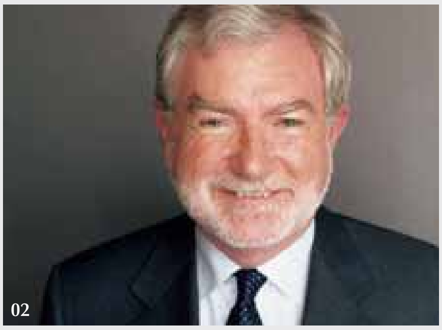
Dividend per share (pence)

2005	22.2
2004	19.0
2003	16.4
2002	14.2
2001	12.3

Board members

01

03

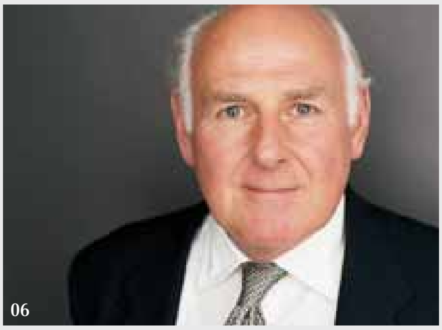


02

01 Peter Warry*
Aged 56, was appointed as non-executive chairman of the Group in November 2004, having joined as non-executive director in 1998, and is chairman of the Nomination Committee. He is also chairman of Victrex PLC and BSS Group PLC. Previously he was an executive director of British Energy plc and chief executive of its English generating company.

02 John Dodds
Aged 60, was appointed chief executive in May 2003 and has been with the Group since 1970. He has spent time overseas working particularly in Africa and Hong Kong returning to the UK to lead the civil engineering business. Following the buy-out he was responsible for major projects, mining and international operations and was chairman of Kier Project Investment. He holds the position of director with overall responsibility for health & safety and environmental matters and is a member of the Nomination Committee.

03 Deena Mattar
Aged 40, was appointed to the Board as an executive director in September 2001. She joined Kier in 1998 from KPMG where she developed an in-depth knowledge of construction. She held the role of finance director of Kier National, the Group's major building and civil engineering projects arm, until July 2001 and was appointed Group finance director in November 2001. She is also chairman of Kier Project Investment.



04 Dick Side
Aged 58, joined Wallis in 1983 as managing director of its Construction Division. His 22-year career with the Group has been spent in regional contracting and he was appointed managing director of Kier Regional in 2001. In January 2003 he became main board director responsible for the Group's Regional construction division.

05 Dick Simkin
Aged 57, joined the Group in 1989 and has made a significant contribution to strengthening Kier's presence in the property sector. He played a key part in the Group's acquisition of Laing Property and was appointed to the Board in January 2003 as director responsible for the Group's Property division.

06 Peter Berry*
Aged 61, is chairman of The Crown Agents for Oversea Governments and Administrations. He is also chairman of Martin Currie Portfolio Investment Trust plc, a non-executive director of Henderson TR Pacific Investment Trust PLC and an advisor to the Corporation of London on international and economic development. He was appointed to the Board in 1997 and is senior independent director, chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

07 Simon Leathes*
Aged 57, is vice chairman for support services at Barclays Capital, the investment banking division of Barclays PLC. He previously held senior appointments at Lend Lease Corporation, Hambros PLC and SG Warburg Group plc. He was appointed to the Board in March 2001 and is chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

08 Matthew Barton
Aged 31, was appointed company secretary in July 2005. He joined the Group in September 2004 as corporate counsel from lawyers Cleary, Gottlieb, Steen and Hamilton, where he advised the Group on a variety of issues. At Cleary Gottlieb he had a wide-ranging commercial practice including advising both public and private clients on major domestic and cross-border transactions. He is responsible for corporate governance within the Group and, as corporate counsel, has oversight of corporate legal affairs.

*Non-executive directors

Financial statements

Directors' report

The directors present their annual report and audited financial statements for the year ended 30 June 2005.

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

A review of the Group's business and progress is given within the chairman's statement, chief executive's review, operating review and financial review on pages 10 to 37.

Results and dividends
The Group profit for the year after taxation was £37.8m (2004: £28.6m).

An interim dividend of 7.0p per share (2004: 6.0p) amounting to £2.5m (2004: £2.2m) was paid on 19 May 2005. The directors propose a final dividend of 15.2p per share (2004: 13.0p per share) amounting to £5.4m (2004: £4.6m) payable on 6 December 2005 to shareholders on the Register of Members at the close of business on 30 September 2005.

Share capital
Details of shares allotted by the Company during the year appear in note 20 to the financial statements.

Directors
The directors of the Company during the year are shown on pages 38 and 39. Mr C R W Busby retired as a director on 13 December 2004, and Mr R W G Gregory resigned as a director on 27 April 2005.

At the forthcoming Annual General Meeting resolutions will be proposed for the re-election of Mr J Dodds, Mr R W Side and Mr R W Simkin. At that date, the unexpired term of the contract of employment with the Company of each of these directors will be 12 months.

Details of directors' interests are disclosed in the directors' remuneration report on page 48.

The Articles of Association of the Company provide for the indemnification of its directors out of the assets of the Company in the event that they suffer any loss or liability in the execution of their duties as directors. The ability of the Company to make any such indemnity is restricted in certain respects by statute.

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.

Substantial shareholdings
At 14 September 2005 the Company had been notified of the following interests in the Ordinary Share Capital of the Company:

Legal & General plc	4.20%

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

Combined Code
A statement on corporate governance is set out on pages 42 to 44.

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

Donations
Group donations to charity in the United Kingdom were £73,000 (2004: £41,000). No political donations were made (2004: nil).

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

Subsidiary trading companies within the Group, acting in accordance with the above policy, exhibit creditor days averaging 32 (2004: 39) in respect of suppliers of invoiced goods and services and 20 (2004: 26) in respect of certified amounts due to subcontractors. These figures exclude amounts not currently due for payment but included within trade creditors.

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

The directors have satisfied themselves, after making all reasonable enquiries, that there is no relevant information which has not been disclosed to the auditors.

Signed on behalf of the Board.

M D Barton
Secretary

14 September 2005
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Corporate governance statement

The Code

The Board recognises the importance of high standards of corporate conduct and is committed to managing the Group's operations in accordance with the best principles of corporate governance as contained within Section 1 of the Combined Code on Corporate Governance (the Code) issued in July 2003 and has complied with the Code throughout the year except as explained below.

Upon the retirement of Mr C R W Busby in November 2004, Mr J Dodds was appointed to the Nomination Committee. Mr P T Warry was appointed chairman of the Board and therefore ceased to be considered independent (in terms of the Code). Consequently, the Nomination Committee no longer comprised a majority of independent non-executive directors as required by the Code. The Nomination Committee has identified the need to appoint an additional independent non-executive director to the Board and is taking steps to complete this appointment in a timely manner. The new independent non-executive director will also be appointed to the Audit, Remuneration and Nomination Committees, thereby meeting Code requirements.

Board of directors

The Board of Kier Group plc currently comprises four executive and three non-executive directors, of whom Mr P F Berry and Mr S W Leathes are classed as independent under the Code, and operates both formally through the Board and Board committees and informally through regular contact between directors as required.

The chairman of the Board is Mr P T Warry, following the retirement of Mr C R W Busby as chairman on 27 November 2004, and the chief executive is Mr J Dodds. The senior independent director nominated by the Board for the purposes of Provision A.3.3 of the Combined Code is Mr P F Berry. Details of the directors are given on pages 38 and 39. All the directors, with the exception of Mr C R W Busby and Mr R W Gregory, served throughout the year. The Board has a strong and independent non-executive element, including a recognised senior member, and a well established and experienced executive element. This, coupled with clear Board procedures for decision making, ensures that there is no undue concentration of power in any one individual.

With effect from 1 July 2005, Mr M D Barton was appointed company secretary. This is a reflection of the desire of the Board to commit sufficient resources to corporate governance issues especially in light of the growth of the Group and will allow Miss D E Mattar to fully devote her time to her executive function.

The Board met 11 times during the year and has a formal schedule of matters specifically reserved to it or Board committees for decision including strategy, approval of financial statements, risk management, major capital expenditure, major project approval, acquisitions and disposals. A table showing attendance at these meetings and at meetings of the Audit Committee, the Remuneration Committee and Nomination Committee is set out on page 43.

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

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

Audit Committee

The Audit Committee comprises the two independent non-executive directors under the chairmanship of Mr S W Leathes, a chartered accountant. Mr P T Warry ceased to be a member of the Committee on becoming chairman of the Board. The Committee met three times during the year in September, March and June prior to the Board meetings. These committee meetings were also attended by the finance director and the head of internal audit. The KPMG Audit plc (KPMG) audit engagement director attended the September and March meetings. The chairman and executive directors were also invited to attend the meetings. The Committee also met with KPMG without the presence of the management.

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

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

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

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

The Committee reviewed the performance of KPMG and the level of non-audit fees paid to them during the year which are set out in note 2 on page 59. The provision of non-audit services, other than tax compliance and routine taxation advice, must be referred to and agreed by the Committee over a pre-determined cost threshold and any work costed below that threshold must be pre-approved by the Group finance director. No consultancy related work has been carried out by the auditors during the year. The Committee was satisfied, following its review, that KPMG's objectivity and independence had not been impaired.

The Committee agreed and approved the audit fee at the June meeting following discussions between divisional management and the divisional KPMG audit teams.

The Committee's terms of reference are reviewed annually and were updated in 2004 in line with the guidance and recommendations of the revised Combined Code. The terms of reference are available on request and on the Company's website.

Remuneration Committee

The Remuneration Committee comprises the two independent non-executive directors, under the chairmanship of Mr P F Berry.

Information about the workings of this Committee is contained in the directors' remuneration report beginning on page 45. 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 terms of reference are available on the Company's website.

Nomination Committee

The Nomination Committee presently comprises the chairman, the chief executive and the non-executive directors. It is responsible for monitoring the composition and balance of the Board and making recommendations to the Board on new Board appointments. The Committee met twice during the year, including a meeting on the appointment of Mr P T Warry as chairman of the Board, which he did not attend. The Committee's preference was for an internal candidate as it believes that the complexities of the Group are such that the learning process for an external candidate would be longer than is desirable. This is also consistent with the Group's general desire to promote individuals from within. Hence the Committee, and the Board, saw no requirement to appoint recruitment consultants or to recruit externally in the case of the chairman. Recruitment consultants have been retained for the new non-executive director mentioned above. Given Mr P T Warry's experience and knowledge of the Group it was felt by the Nomination Committee that his two other chairmanships were not inconsistent with the performance of his responsibilities to the Group to which he devotes significant time and energy. Mr C R W Busby did not participate in the process of considering Mr P T Warry's appointment. The Committee's terms of reference are available on the Company's website.

Board and Committee Meetings

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

Name of Director	Board – (11)	Audit – (3)	Remuneration – (3)	Nomination – (2)
C R W Busby(i)	5	–	–	–
P T Warry	11	1	1	1
J Dodds	11	–	–	–
D E Mattar	11	–	–	–
R W Side	11	–	–	–
R W Simkin	11	–	–	–
R W Gregory(ii)	9	–	–	–
P F Berry	11	3	3	2
S W Leathes	10	3	3	2

Note (i) Mr C R W Busby retired as a director on 13 December 2004
(ii) Mr R W Gregory resigned as a director on 27 April 2005

Board evaluation

The chairman carried out an evaluation of the Board in the spring of 2005 by way of an externally developed objective based questionnaire. This included all the committees of the Board. The directors were asked to individually score the performance and effectiveness of the Board against a number of criteria which were then discussed by the Board. A number of actions have been agreed, particularly in relation to executive director training and performance evaluations of the executive directors which are to be carried out by the chief executive. The independent non-executives separately reviewed the performance of the chairman.

Internal control

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

Corporate governance statement
continued

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

- an established management structure operating throughout the Group with clearly defined levels of responsibility and delegation of authorities;
- clearly defined operating guidelines and procedures with authorisation limits set at appropriate levels. These are set out in the Group and divisional standing orders;
- a comprehensive budgeting and forecasting system 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 is carried out by the directors of each division with the chief executive and finance director in attendance;
- monthly management reporting including regular comparison of actual results against latest forecasts;
- established policies and procedures governing the Group's investment in land, property and other significant assets, including acquisitions and disposals. These include detailed appraisals, appropriate authorisation levels and Board approval depending on value or perceived exposure;
- investment decisions, including Private Finance Initiative projects and tenders for contracts are subject to approval by the Board, the chief executive and finance director or divisional directors depending on the value and nature of the investment or contract. Individual tender and project review procedures are in place prior to bidding and before contract award;
- internal audits are carried out to assess the adequacy and effectiveness of internal controls. The scope of the internal audit work is planned to cover the key risks faced by the business and supplemented by cyclical reviews of the core financial process. Internal audit findings are reported to the Audit Committee and the executive directors on a regular basis;
- risk registers are in place for each business unit which highlight the key risks facing that business together with an assessment of the effectiveness of controls to mitigate those risks. The risk registers are updated regularly and at 31 March;
- an annual process of risk and control self assessment is used in the Group whereby all operating companies are required to review and confirm that appropriate internal controls are in place and operating effectively across the key risk areas identified in individual company risk registers. This assessment was carried out on 31 March 2005 and the findings reviewed by the Audit Committee;
- regular monitoring, review and reporting of health, safety 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 directors are properly briefed on issues arising at Board meetings.

During the course of the year members of the Board visit all companies and monitor the control framework of each business.

The Audit Committee reviews the appropriateness and effectiveness of internal controls.

Relations with shareholders

The Board uses the Annual General Meeting to communicate with shareholders and encourages their attendance and participation. The chairmen of the Audit Committee and the Remuneration Committee are available to answer questions from shareholders. The Group also maintains a regular dialogue with institutional investors to assist in the understanding of the Group's objectives and the company has a programme of regular communication with investors, analysts and brokers which includes the non-executive directors. 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. The Board is provided with independent feedback from analysts and institutional shareholders periodically.

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

Directors' remuneration report

The Remuneration Committee

The Remuneration Committee is a Board committee consisting entirely of independent non-executive directors. The following directors were members of the Committee for the year ended 30 June 2005:

P F Berry (chairman)
S W Leathes
P T Warry (until 27 November 2004)

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

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. The Committee consults the Group chairman and chief executive concerning its proposals (except in relation to their own remuneration) and takes external professional advice as appropriate. In respect of the year ended 30 June 2005 the Committee appointed New Bridge Street Consultants LLP as its independent remuneration advisors. New Bridge Street Consultants LLP provides no other service to the Company. Where necessary, or appropriate, the Committee instigates consultation with major institutional shareholders on remuneration matters.

Remuneration policy

The Committee makes recommendations to the Board on executive remuneration policy for adoption by the Board and determines specific remuneration packages for each of the executive directors on behalf of the Board. The Committee also monitors remuneration packages of other senior executives throughout the Group. Remuneration and benefits are set at market levels comparable with companies of similar size and scope of activity in order to be able to attract, retain and motivate high calibre individuals. The Committee's policy is to maintain an appropriate balance between fixed elements of remuneration (basic salary, benefits in kind and pension) and performance-related elements (annual bonus and long-term incentives) and to place much greater emphasis on rewarding executives by reference to the Group's long-term performance rather than its short-term results. The Committee and Board encourage directors and staff at all levels to acquire shares in the Company and to hold them for the longer term. This sense of ownership is an important element of Kier's culture and of its focus on long-term performance. As far as possible the Group prefers to promote individuals from within. The remuneration received by each of the directors, together with details of share interests and pension benefits, are set out on pages 47 to 49.

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

Basic salary

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

Benefits in kind

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

Annual bonus arrangements

A bonus is paid to all executive directors at a percentage of annualised basic salary (not exceeding 20% for the years to 30 June 2005 and 30 June 2006) if Group pre-tax profit attains targets pre-set each year. These targets are agreed by the Committee; they are not published externally for reasons of commercial confidentiality.

Retirement benefits

Executive directors participate in the final salary section of the Kier Group Pension Scheme. In cases where the executive directors' pensionable pay is limited by the earnings cap provisions of the Finance Act 1989, the director is paid a salary supplement above the earnings cap to reflect the loss of pension coverage. This supplement is recorded in the directors' emoluments table and is not taken into account in determining bonuses or any other form of remuneration. Only the basic salary of directors is pensionable. Details of individual directors' pension arrangements are shown in a separate table on page 47. In the light of impending changes to pensions legislation, the Committee will be reviewing the present arrangements during the current year to ensure they remain cost effective for the Group.

Long-term incentives

The Kier Group 1999 LTIP was approved by shareholders on 27 November 1999 under which directors can receive awards of shares worth up to 100% of salary per annum. Awards granted in the year to 30 June 2005 are subject to the Group achieving the following adjusted earnings per share growth targets:

- the directors will receive 100% of the award if earnings per share increase by at least 20% per annum in excess of inflation (the maximum target) over the relevant three-year performance period;

- no awards will vest unless earnings per share over the same period increase by at least 5% per annum in excess of inflation (the base target) at which point 25% of the award will vest; and

- the proportion of the awards which will vest for performance between the base target and the maximum target will be calculated on a straight line basis.

Directors' remuneration report
continued

These targets were selected by the Committee to ensure that the Group would have to attain a substantial improvement in underlying financial performance before the awards could vest. The attainment of the performance targets is verified by the Remuneration Committee and reviewed by the Company's auditors. The calculation for earnings per share will be carried out on a consistent basis such that the opening and closing earnings per share will both be calculated under UK GAAP or both under International Financial Reporting Standards.

17.9% of executive directors' remuneration for the year to 30 June 2005 was represented by the award under the LTIP on the basis of the share values at the time of the award. This calculation includes lower levels of award for directors within three years of their appointment to the board.

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

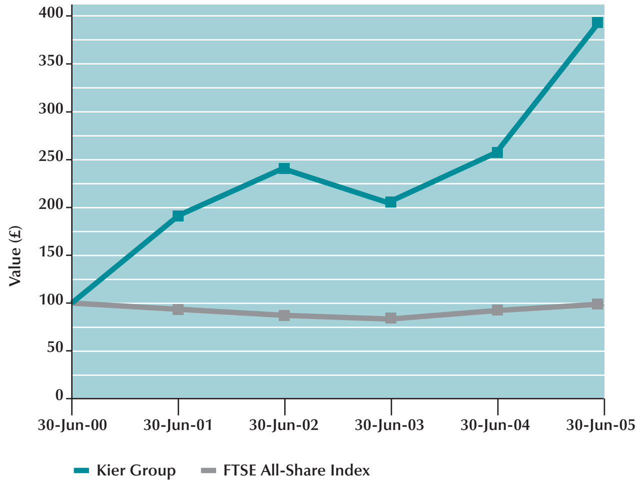
Prior to the introduction of the LTIP, the Company granted Performance Related Options to the executive directors. It is not the Committee's current intention to make any further grants of these options.

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

Non-executive directors
The remuneration of the non-executive directors is determined by the Board and reflects 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. The Company has agreements for services with each of Mr P T Warry dated 29 November 2004, Mr P F Berry dated 24 March 1997 and Mr S W Leathes dated 12 March 2001. All are terminable on 12 months' notice by either party.

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

Source: Thomson Financial



The graph shows the value, by 30 June 2005, of £100 invested in Kier Group plc on 30 June 2000 compared with the value of £100 invested in the FTSE All-Share Index. The other points plotted are the values at intervening financial year-ends.

Audited information
Except for the disclosure on directors' interests the following information on pages 47 to 49 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 2005 was as follows:

	Salary & fees £000	Benefits £000	Bonus £000	Total 2005 £000	Total 2004 £000
C R W Busby[1]	45	3	–	**48**	411
P T Warry[2]	74	–	–	**74**	31
J Dodds	301	15	63	**379**	338
P F Berry	30	–	–	**30**	28
R W Gregory[3 & 4]	192	11	–	**203**	238
S W Leathes	30	–	–	**30**	28
D E Mattar[4]	244	19	45	**308**	294
R W Side	214	11	45	**270**	242
R W Simkin[4]	226	11	43	**280**	248
	1,356	70	196	**1,622**	1,858

1 Mr C R W Busby retired on 13 December 2004.
2 Mr P T Warry was appointed chairman on 27 November 2004.
3 Mr R W Gregory resigned from the Board on 27 April 2005 and, in addition to the above, he received a settlement of £276,140, consequently his emoluments for the year ended 30 June 2005 were £479,140.
4 Salary includes a pension-related salary supplement explained in the pensions section below. The supplement included above was £16,723 for Mr R W Gregory, £23,670 for Miss D E Mattar and £20,369 for Mr R W Simkin.

Directors' pensions

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

	Increase in accrued pension over the year £000	Increase in accrued pension over the year[1] £000	Transfer value of increase in accrued pension[2] £000	Accumulated total accrued pension at 30 June 2005 £000	Transfer value of accrued pension at 30 June 2004 £000	Increase in transfer value[2] £000	Transfer value of accrued pension at 30 June 2005 £000
C R W Busby	13	7	124	238	4,082	420	4,502
J Dodds	30	24	428	202	2,870	825	3,716
R W Gregory[3]	5	4	33	48	453	66	525
D E Mattar[3]	4	4	4	25	130	28	165
R W Side	20	17	249	118	1,534	464	2,012
R W Simkin[3]	5	4	46	55	701	127	835

Members of the Scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.
1 The increase in a member's accrued pension over the year shown above is the adjusted figure after allowing for inflation during the year.
2 Transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less directors' contributions.
3 As Mr R W Gregory, Miss D E Mattar and Mr R W Simkin joined the Company after 1 June 1989, their benefits from the Kier Group Pension Scheme are capped at an annual salary set in accordance with Inland Revenue requirements, currently £105,600. Included within the salary and fees of Mr R W Gregory, Miss D E Mattar and Mr R W Simkin in the emoluments table is an allowance representing 20% of salary in excess of the earnings cap.

Directors' remuneration report
continued

Directors' interests

The directors of the Company at 30 June 2005 had the following beneficial interest (including interests of dependent family members) in the Ordinary Shares of the Company:

	30 June 2005	1 July 2004
P T Warry (chairman)	**7,595**	7,403
J Dodds (chief executive)	**576,566**	566,718
P F Berry (non-executive)	**6,650**	6,650
S W Leathes (non-executive)	**10,000**	10,000
D E Mattar	**57,946**	34,149
R W Side	**162,286**	150,010
R W Simkin	**281,909**	265,990

Mr R W Side had a non-beneficial interest in 5,770 Ordinary Shares at 30 June 2005 (1 July 2004: 3,813).

In addition, the executive directors, as potential beneficiaries of the Kier Group 1999 Employee Benefit Trust, are deemed along with all other UK employees to have an interest in 256,331 (2004: 267,414) Ordinary Shares with a nominal value of £2,563 (2004: £2,674) representing 0.72% of the called up share capital of the Company, held by the Trust.

At 14 September 2005 the following directors had acquired beneficial interests in further Ordinary Shares: Mr J Dodds, 40 shares; Miss D E Mattar, 40 shares and Mr R W Side, 39 shares. There had been no changes in the interests of the other directors since 30 June 2005.

Directors' share options

Mr J Dodds and Miss D E Mattar each held 590 Sharesave Scheme Options granted on 29 October 2003 at an exercise price of 625p. The Sharesave Scheme Options are, as for all company employees under the scheme, not subject to a performance condition. The options are exercisable from 1 January 2007 until 1 July 2007.

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

	Date of grant	Exercise price	1 July 2004	Exercised	Market price at date of exercise	30 June 2005
R W Gregory	5 December 1996	170.0p	5,882	5,882	729.5p	–
	14 October 1998	189.5p	2,000	2,000	729.5p	–
D E Mattar	9 July 1998	250.0p	12,000	12,000	903.0p	–
R W Side	5 Dec 1996	170.0p	17,647	17,647	895.0p	–
R W Simkin	5 Dec 1996	170.0p	11,764	11,764	751.5p	–
	14 Oct 1998	189.5p	2,000	2,000	751.5p	–

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

All Performance Related Options become exercisable in full after three years and lapse 10 years after the date they were granted, subject to satisfaction of a pre-set performance condition based on the Company's total shareholder return. As disclosed in previous remuneration reports, this condition was satisfied in 2001 for the options outlined above.

The market price of the shares at 30 June 2005 was 916p and the range during the year was 643p to 940p. The aggregate gain on the exercise of the share options in the year was £329,658 (2004: £6,822).

LTIP

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

				Cumulative Total	
	2003 award	2004 award	2005 award	30 June 2005	30 June 2004
J Dodds	23,930	21,912	33,798	79,640	68,188
R W Gregory[1]	5,000	14,342	23,068	42,410	24,342
D E Mattar	22,148	16,733	24,141	63,022	57,875
R W Side	10,000	15,537	24,141	49,678	33,037
R W Simkin	5,000	14,342	23,068	42,410	24,342
Date of award	1 October 2002	1 October 2003	1 December 2004		
Share price	451.5p	627.5p	699.0p		
End of performance period	30 June 2005	30 June 2006	30 June 2007		

1 Mr R W Gregory is entitled to 34/36ths of the entitlement in respect of the 2003 award relating to this period of employment. He will also be entitled to 22/36ths of any entitlement in respect of the 2004 award. His 2005 award lapsed on his resignation.

For the 2002, 2003 and 2004 awards, 25% of the award vests if earnings per share grows by at least 7.5% per annum compound over the performance period, increasing on a sliding scale to 100% vesting if growth is at least 25% per annum compound. For the 2005 award, 25% of the award vests if earnings per share 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.

For the three-year period ended 30 June 2004 earnings per share increased by 19.30% per annum compound. Accordingly the directors received 73.07% of the 2002 award (granted on 2 October 2001 when the share price was 447.5p) and were entitled to receive a combination of shares, at no cost, and cash. Shares vested during the year in executive directors of the Company under the 2002 award of the LTIP, together with the cash element received, were:

	2002 award number	Shares lapsed number	Shares vested number	Received as shares number	Market price pence	Received as cash £	Total LTIP award £
C R W Busby	33,519	9,027	24,492	–	728.25	178,363	178,363
J Dodds	22,346	6,018	16,328	9,633	728.25	48,756	118,909
R W Gregory	5,000	1,346	3,654	2,155	728.25	10,916	26,610
D E Mattar	18,994	5,115	13,879	11,582	728.25	16,728	101,074
R W Side	7,500	2,020	5,480	3,233	728.25	16,364	39,908
R W Simkin	5,000	1,346	3,654	2,155	728.25	10,916	26,610
							491,474
						2004:	634,635

For the three-year period ended 30 June 2005 earnings per share increased by 19.68% per annum compound. Accordingly the directors will receive 74.77% of the 2003 award and will be entitled to receive the number of shares set out below, at no cost, on 30 September 2005 on which income tax and national insurance will be payable.

	Number of shares
J Dodds	17,892
R W Gregory	3,530
D E Mattar	16,560
R W Side	7,477
R W Simkin	3,738

Approval of report

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

Signed on behalf of the Board

P F Berry
Chairman Remuneration Committee

Statement of directors' responsibilities

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

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

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

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

We have audited the financial statements on pages 52 to 75. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 50, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the corporate governance statement on pages 42 to 44 reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

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

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

Opinion
In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2005 and of the profit of the Group for the year then ended; and

- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

14 September 2005

Consolidated profit and loss account
for the year ended 30 June 2005

	Notes	**2005 £m**	2004 £m
Turnover – Continuing operations			
Group and share of joint ventures	2	**1,621.4**	1,476.5
Less share of joint ventures' turnover		**(48.4)**	(32.4)
Group turnover		**1,573.0**	1,444.1
Cost of sales		**(1,430.7)**	(1,315.1)
Gross profit		**142.3**	129.0
Administrative expenses		**(93.7)**	(89.6)
Group operating profit – Continuing operations		**48.6**	39.4
Share of operating profit – joint ventures		**4.8**	3.2
Operating profit: Group and share of joint ventures	2	**53.4**	42.6
Exceptional items	3	**6.7**	–
Profit on ordinary activities before interest and taxation		**60.1**	42.6
Net interest receivable/(payable) – Group	4	**0.9**	(0.2)
Net interest payable – joint ventures		**(3.1)**	(1.8)
Profit on ordinary activities before taxation	2	**57.9**	40.6
Taxation on profit before exceptional items	8	**(15.8)**	(12.0)
Taxation on exceptional items	3	**(4.3)**	–
		(20.1)	(12.0)
Profit for the year		**37.8**	28.6
Dividends	9	**(7.9)**	(6.8)
Retained profit for the Group and its share of joint ventures		**29.9**	21.8
Earnings per Ordinary Share	10		
– basic		**106.8p**	81.5p
– diluted		**105.9p**	80.8p
Adjusted Earnings per Ordinary Share (before exceptional items and goodwill amortisation)	10		
– basic		**105.4p**	87.2p
– diluted		**104.5p**	86.4p

All items in the profit and loss account relate to operations continuing as at 30 June 2005.

Group operating profit – includes a charge of £2.5m for the amortisation of goodwill (2004: £2.6m).

Consolidated balance sheet
at 30 June 2005

	Notes	2005 £m	2004 £m
Fixed assets			
Intangible assets – goodwill	11	**16.1**	18.6
Tangible assets	12	**75.8**	68.9
Investments			
Investment in joint ventures			
Share of gross assets	13	**218.3**	194.8
Share of gross liabilities	13	**(221.8)**	(190.7)
Loans provided to joint ventures	13	**27.3**	28.1
Investment in joint ventures	13	**23.8**	32.2
		115.7	119.7
Current assets			
Stock	14	**334.2**	328.6
Debtors	15	**259.9**	231.2
Cash at bank and in hand	19	**93.5**	41.4
		687.6	601.2
Current liabilities			
Creditors – amounts falling due within one year	16	**(587.3)**	(530.7)
Net current assets		**100.3**	70.5
Total assets less current liabilities		**216.0**	190.2
Creditors – amounts falling due after more than one year	16	**(48.3)**	(58.5)
Provisions for liabilities and charges	17	**(20.3)**	(15.3)
Net assets	2	**147.4**	116.4
Capital and reserves			
Called up share capital	20	**0.4**	0.4
Share premium account	21	**17.9**	17.1
Capital redemption reserve	21	**2.7**	2.7
Share scheme reserve	21	**(0.2)**	(0.4)
Profit and loss account	21	**126.6**	96.6
Equity shareholders' funds		**147.4**	116.4

Company balance sheet
at 30 June 2005

	Notes	2005 £m	2004 £m
Fixed assets			
Investment in subsidiary undertakings	13	**55.3**	55.3
Current assets			
Debtors	15	**22.0**	24.0
Cash at bank and in hand		**195.2**	75.8
		217.2	99.8
Current liabilities			
Creditors – amounts falling due within one year	16	**(203.4)**	(84.1)
Net current assets		**13.8**	15.7
Total assets less current liabilities		**69.1**	71.0
Creditors – amounts falling due after more than one year	16	**(37.6)**	(40.1)
Net assets		**31.5**	30.9
Capital and reserves			
Called up share capital	20	**0.4**	0.4
Share premium account	21	**17.9**	17.1
Merger relief reserve	21	**1.2**	1.2
Capital redemption reserve	21	**2.7**	2.7
Share scheme reserve	21	**(1.0)**	(0.8)
Profit and loss account	21	**10.3**	10.3
Equity shareholders' funds		**31.5**	30.9

The financial statements were approved by the board of directors on 14 September 2005 and were signed on its behalf by:

J Dodds
D E Mattar
Directors

Consolidated cash flow statement
for the year ended 30 June 2005

	Notes	2005 £m	2004 £m
Net cash inflow/(outflow) from operating activities	22 (a)	**86.4**	(3.7)
Dividends received from joint ventures		**0.4**	0.3
Returns on investments and servicing of finance			
Interest received		**2.5**	1.4
Interest paid		**(2.6)**	(2.8)
Interest on loans to joint ventures		**1.2**	2.0
		1.1	0.6
Taxation paid		**(12.8)**	(11.5)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(19.9)**	(21.5)
Sale of tangible fixed assets		**6.0**	2.8
		(13.9)	(18.7)
Acquisitions and disposals	22 (c)	**(4.1)**	(17.2)
Equity dividends paid		**(6.4)**	(5.5)
Cash inflow/(outflow) before use of liquid resources and financing		**50.7**	(55.7)
Management of liquid resources			
Net decrease in short-term bank deposits		**16.1**	20.7
Financing			
Issue of ordinary share capital		**0.2**	1.4
Purchase of own shares		**(0.4)**	(0.1)
		(0.2)	1.3
Increase/(decrease) in cash during the year		**66.6**	(33.7)
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash		**66.6**	(33.7)
Decrease in liquid resources		**(16.1)**	(20.7)
Movement in net funds in the year		**50.5**	(54.4)
Cash, net of debt on 1 July		**7.6**	62.0
Cash, net of debt at 30 June	22 (b)	**58.1**	7.6

Consolidated statement of total recognised gains and losses
for the year ended 30 June 2005

	2005 £m	2004 £m
Group profit for the year excluding joint ventures	**37.1**	27.0
Share of joint ventures' profit for the year	**0.7**	1.6
Profit for the year	**37.8**	28.6
Currency translation	**0.1**	(0.4)
Total recognised gains and losses for the year	**37.9**	28.2

Reconciliation of movements in shareholders' funds
for the year ended 30 June 2005

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Profit for the year	**37.8**	28.6	**7.9**	8.0
Dividends	**(7.9)**	(6.8)	**(7.9)**	(6.8)
Retained profit for the year	**29.9**	21.8	**–**	1.2
Currency translation	**0.1**	(0.4)	**–**	–
Issue of shares	**0.8**	2.0	**0.8**	2.0
Movement in share scheme reserve	**0.2**	0.3	**(0.2)**	0.2
Net additions to shareholders' funds	**31.0**	23.7	**0.6**	3.4
Opening shareholders' funds	**116.4**	92.7	**30.9**	27.5
Closing shareholders' funds	**147.4**	116.4	**31.5**	30.9

Notes to the financial statements

1 Accounting policies

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

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

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

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

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

The general principles for profit recognition are:

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

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

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

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

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

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

Notes to the financial statements
continued

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

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

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

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

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

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

Leased assets
Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

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

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

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

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

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

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

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

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

2 Turnover, profit and segmental information

Segmental analysis of the results is shown below:

	Turnover		Operating profit		Profit before tax	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Construction	**1,096.2**	1,007.3	**15.0**	10.9	**26.4**	19.0
Support Services	**227.5**	197.7	**3.2**	2.7	**3.0**	2.2
Homes	**225.5**	215.7	**34.1**	31.8	**24.7**	24.5
Property	**60.4**	46.6	**10.0**	6.6	**7.2**	5.0
Infrastructure Investment	**11.8**	9.2	**(0.9)**	(1.9)	**1.4**	(1.3)
Corporate overhead/finance	**–**	–	**(8.0)**	(7.5)	**(4.8)**	(8.8)
	1,621.4	1,476.5	**53.4**	42.6	**57.9**	40.6

Operating profit and profit before tax is after deducting the amortisation of goodwill in Construction of £0.6m (2004: £0.6m) and in Support Services of £1.9m (2004: £2.0m).

	Net operating assets		Net assets	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Construction	**(175.1)**	(132.6)	**66.6**	59.0
Support Services	**(6.3)**	10.6	**8.1**	7.3
Homes	**248.4**	201.3	**62.9**	53.6
Property	**24.3**	24.8	**11.7**	8.1
Infrastructure Investment	**(1.7)**	9.0	**(3.7)**	(1.8)
Corporate overhead/finance	**(0.3)**	(4.3)	**1.8**	(9.8)
	89.3	108.8	**147.4**	116.4

Net operating assets represent assets excluding cash, bank overdrafts, long-term borrowings and interest-bearing inter-company loans (see note 16).

Operating profit and profit before tax for Support Services and corporate overhead/finance have been adjusted to reallocate costs of bidding for Support Services contracts from corporate overhead/finance to Support Services. The adjustment is £2.0m in the year to June 2004. Profit before tax for the year to 30 June 2005 includes: an exceptional profit of £0.8m relating to the sale of an investment in Construction; an exceptional profit of £2.1m relating to the sale of an investment in a PFI joint venture in Infrastructure Investment; and an exceptional profit of £3.8m relating to the sale of a fixed asset property in corporate overhead/finance.

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

	2005 £m	2004 £m
Remuneration of auditors – audit fees	**0.6**	0.6
– other fees	**–**	0.1
Hire of plant and machinery	**16.3**	23.1
Operating lease rentals:		
Land and buildings	**2.8**	2.4
Plant and machinery	**9.6**	9.0
Goodwill amortisation	**2.5**	2.6
Depreciation of tangible fixed assets	**12.3**	8.1

Remuneration of the auditors in respect of the Company for audit amounted to £4,450 (2004: £4,300). Other fees payable to auditors relate to taxation advisory work. No consultancy related work has been carried out by the auditors in either of the two years ended 30 June 2005.

Notes to the financial statements
continued

3 Exceptional items

Exceptional items for the year to 30 June 2005 arise from the following:

	Profit before tax £m	Tax £m	Net profit/(loss) £m
Disposal of investment in Kier Hong Kong Limited	**0.8**	**–**	**0.8**
Disposal of investment in a PFI joint venture	**2.1**	**(0.6)**	**1.5**
Refinancing of a PFI joint venture	**–**	**(2.5)**	**(2.5)**
Disposal of a fixed asset property	**3.8**	**(1.2)**	**2.6**
	6.7	**(4.3)**	**2.4**

4 Net interest receivable/(payable) – Group

	2005 £m	2004 £m
Interest receivable	**4.0**	3.0
Interest payable on bank loans and overdrafts	**(0.5)**	(0.9)
Unwinding of discount	**(0.6)**	(0.3)
Interest payable on long-term borrowings	**(2.0)**	(2.0)
	0.9	(0.2)

5 Information relating to employees

	2005 No	2004 No
Average number of persons employed during the year including executive directors was:		
United Kingdom	**7,026**	6,978
Rest of World	**1,273**	1,351
	8,299	8,329

	£m	£m
Group staff costs are as follows:		
United Kingdom	**231.6**	220.5
Rest of World	**9.2**	11.3
	240.8	231.8
Wages and salaries	**204.0**	197.4
Social security costs	**18.3**	17.1
Other pension costs (note 7)	**18.5**	17.3
	240.8	231.8

6 Information relating to directors

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 45 to 49.

7 Pensions

a) SSAP 24 'Pension Costs'

The principal UK pension scheme is the Kier Group Pension Scheme which includes a defined benefit section and a defined contribution plan. The assets of the Scheme are held under trust separately from those of the Group; the Trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers. Pension costs are assessed on the advice of an independent qualified actuary using the projected unit method and the following main assumptions for the financial year ended 30 June 2005:

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

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

The results of the above valuation were rolled forward to 30 June 2002 to determine the pension costs for the financial years to 30 June 2004 and 30 June 2005 with allowance for actual investment performance to 30 June 2002 and for the new early retirement terms which were introduced in 2003. At 30 June 2002, the market value of the Scheme's assets was £296.8m which represented 93% of members' accrued benefits after allowing for projected increases in salaries.

The Group's pension charge of £12.5m (2004: £12.3m) to the defined benefit section of the Scheme has been calculated on the basis of the above review. Contributions paid during the year amounted to £24.5m (2004: £12.3m) and the excess of contributions over the pension charge has been included within prepayments and will be spread over the remaining service lives of participating employees.

The above pension cost is in respect of the defined benefit section of the Scheme. This section was closed to new entrants on 1 January 2002 with most new employees after that date being offered membership of the Retirement Savings Plan, a defined contribution arrangement. The Group is required to pay contributions in respect of those employees in accordance with the rates specified in the Plan. The contributions paid to the Retirement Savings Plan during the year, and the pension charge, amounted to £1.8m (2004: £1.2m).

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

Kier Sheffield LLP's pension costs are assessed on the advice of an independent qualified actuary using the projected unit method and the following main assumptions for the financial year ended 30 June 2005:

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

The same method and assumptions were used for the 2001 actuarial valuation of the Fund and the determination of Kier Sheffield LLP's contributions. As noted above, Kier Sheffield LLP was granted a fully funded past service position as at 1 April 2003 with assets and ongoing past service liabilities of £65.0m.

Kier Sheffield's pension charge for the financial year ended 30 June 2005 has been calculated on the basis of the above and, given the fully funded past service position, is equal to the contributions paid during the year which amount to £2.9m (2004: £2.9m).

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

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

b) FRS 17 'Retirement Benefits'

Details of the Kier Group Pension Scheme and the pension arrangements for Kier Sheffield LLP under FRS 17 are given below:

The valuation used for the FRS 17 disclosure for the Kier Group Pension Scheme has been based on the most recent actuarial valuation at 1 April 2002 updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the Scheme at 30 June 2005. The Scheme's assets are stated at their market values at 30 June 2005.

The numbers disclosed for the Kier Sheffield LLP pension arrangements have been based on an assessment of Kier Sheffield LLP's assets and liabilities in the South Yorkshire Pension Fund (SYPF) which has been carried out by an independent qualified actuary to take account of the requirements of FRS 17. Kier Sheffield LLP was granted a fully funded past service position in the SYPF in respect of 1,146 transferring employees who were active members of the Fund at 31 March 2003.

Notes to the financial statements
continued

7 Pensions continued

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

	2005 %	2004 %	2003 %
Rate of general increases in salaries	**4.0**	4.3	3.8
Rate of increase to pensions in payment liable for Limited Price Indexation	**2.5**	2.8	2.5
Discount rate	**5.0**	5.9	5.5
Inflation rate	**2.5**	3.0	2.5

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

	Long-term rate of return expected			Value		
	2005 %	2004 %	2003 %	2005 £m	2004 £m	2003 £m
Equities	**7.5**	8.5	8.0	**195.4**	158.8	162.3
Corporate bonds	**4.8**	5.5	5.0	**144.5**	100.8	58.0
Government bonds	**4.3**	5.0	4.5	**54.0**	66.2	72.4
Total market value of assets				**393.9**	325.8	292.7
Present value of liabilities				**(511.9)**	(421.8)	(406.5)
Deficit				**(118.0)**	(96.0)	(113.8)
Related deferred tax asset				**35.4**	28.8	34.1
Net pension liability				**(82.6)**	(67.2)	(79.7)

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

	2005 %	2004 %	2003 %
Rate of general increases in salaries	**4.0**	4.3	3.8
Rate of increase to pensions in payment liable for Limited Price Indexation	**2.5**	3.1	2.6
Discount rate	**5.0**	5.9	5.5
Inflation rate	**2.5**	3.0	2.5

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

	Long-term rate of return expected			Value		
	2005 %	2004 %	2003 %	2005 £m	2004 £m	2003 £m
Equities	**7.5**	8.5	8.0	**75.8**	60.9	52.2
Corporate bonds	**4.8**	5.5	5.0	**7.2**	5.0	5.2
Government bonds	**4.3**	5.0	4.5	**19.5**	17.2	15.4
Total market value of assets				**102.5**	83.1	72.8
Present value of liabilities				**(99.9)**	(74.0)	(65.5)
Surplus				**2.6**	9.1	7.3
Related deferred tax liability				**(0.8)**	(2.7)	(2.2)
Net pension asset				**1.8**	6.4	5.1

7 Pensions continued

	2005			2004		
	Kier Group Pension Scheme £m	**Kier Sheffield LLP £m**	**Total £m**	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Total £m
Analysis of the amount which would be charged to operating profit under FRS 17						
Current service cost	**(12.8)**	**(2.9)**	**(15.7)**	(14.2)	(2.7)	(16.9)
Curtailment cost	**–**	**(0.2)**	**(0.2)**	–	(0.8)	(0.8)
Total operating charge	**(12.8)**	**(3.1)**	**(15.9)**	(14.2)	(3.5)	(17.7)
Analysis of net return on pension scheme assets						
Expected return on pension scheme assets	**22.7**	**6.4**	**29.1**	19.1	5.2	24.3
Interest on pension liabilities	**(24.4)**	**(4.3)**	**(28.7)**	(21.9)	(3.6)	(25.5)
Net return	**(1.7)**	**2.1**	**0.4**	(2.8)	1.6	(1.2)
Analysis of amount to be recognised in Statement of Total Recognised Gains and Losses (STRGL) had FRS 17 been operative						
Actual return less expected return on assets	**32.0**	**9.7**	**41.7**	12.8	2.3	15.1
Experience gains and losses arising on liabilities	**–**	**(8.2)**	**(8.2)**	–	–	–
Changes in assumptions underlying the present value of liabilities	**(64.0)**	**(9.9)**	**(73.9)**	9.7	(1.5)	8.2
Actuarial (loss)/gain recognised in STRGL	**(32.0)**	**(8.4)**	**(40.4)**	22.5	0.8	23.3
Movement in deficit during the year						
(Deficit)/surplus at 1 July	**(96.0)**	**9.1**	**(86.9)**	(113.8)	7.3	(106.5)
Movement in year						
Current service cost	**(12.8)**	**(2.9)**	**(15.7)**	(14.2)	(2.7)	(16.9)
Contributions	**24.5**	**2.9**	**27.4**	12.3	2.9	15.2
Past service costs	**–**	**(0.2)**	**(0.2)**	–	(0.8)	(0.8)
Other finance (cost)/income	**(1.7)**	**2.1**	**0.4**	(2.8)	1.6	(1.2)
Actuarial (loss)/gain	**(32.0)**	**(8.4)**	**(40.4)**	22.5	0.8	23.3
(Deficit)/surplus at 30 June	**(118.0)**	**2.6**	**(115.4)**	(96.0)	9.1	(86.9)
History of experience gains and losses						
Difference between expected and actual return on assets	**32.0**	**9.7**	**41.7**	12.8	2.3	15.1
% of assets	**8%**	**9%**	**8%**	4%	3%	4%
Experience gains and losses arising on liabilities	**–**	**(8.2)**	**(8.2)**	–	–	–
% of liabilities	**–**	**(8%)**	**(1%)**	–	–	–
Changes in assumptions underlying the present value of liabilities	**(64.0)**	**(9.9)**	**(73.9)**	9.7	(1.5)	8.2
% of liabilities	**(13%)**	**(10%)**	**(12%)**	2%	(2%)	2%
Total amount recognised in STRGL	**(32.0)**	**(8.4)**	**(40.4)**	22.5	0.8	23.3

Notes to the financial statements
continued

8 Taxation

a) Analysis of the charge for the year

	2005 £m	2004 £m
Taxation on profit before exceptional items	**15.8**	12.0
Taxation on exceptional items	**4.3**	–
Total taxation charge	**20.1**	12.0
Current tax		
UK corporation tax on profit before exceptional items at 30%	**11.7**	10.8
UK corporation tax on exceptional items	**4.3**	–
Joint venture tax	**0.6**	0.1
Overseas tax	**0.3**	0.5
Adjustments in respect of previous years	**0.4**	0.6
Total current tax (note 8b)	**17.3**	12.0
Deferred tax		
Origination and reversal of timing differences	**2.8**	0.3
Joint venture tax	**0.4**	(0.3)
Adjustments in respect of previous years	**(0.4)**	–
Total deferred tax	**2.8**	–
Total tax on profit on ordinary activities	**20.1**	12.0

b) Factors affecting the tax charge for the year

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

	2005 £m	2004 £m
Profit on ordinary activities before taxation	**57.9**	40.6
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**17.4**	12.2
Effects of:		
Expenses not deductible for tax purposes	**0.5**	0.5
Utilisation of tax losses	**(0.2)**	(0.2)
Capital gains not taxable	**(0.4)**	(0.3)
Tax on refinancing gain	**2.5**	–
Tax relief on special pension contribution	**(3.6)**	–
Movement in tax provisions	**0.5**	0.3
Capital allowances in excess of depreciation	**–**	(1.1)
Overseas tax in excess of UK tax relief	**0.1**	0.1
Joint venture tax	**0.1**	0.3
Other	**–**	(0.4)
Adjustments to tax charge in respect of previous years – current tax	**0.4**	0.6
Current tax charge for the year (note 8a)	**17.3**	12.0

c) Factors that may affect future tax charges

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

9 Dividends

	2005 £m	2004 £m
Ordinary Shares		
Paid 7.0 pence (2004: 6.0 pence)	**2.5**	2.2
Proposed 15.2 pence (2004: 13.0 pence)	**5.4**	4.6
	7.9	6.8

10 Earnings per share

Earnings per share is calculated as follows:

	2005		2004	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Profit after tax	**37.8**	**37.8**	28.6	28.6
Less: exceptional items	**(6.7)**	**(6.7)**	–	–
Add: tax on exceptional items	**4.3**	**4.3**	–	–
Profit after tax before exceptional items	**35.4**	**35.4**	28.6	28.6
Add: goodwill amortisation	**2.5**	**2.5**	2.6	2.6
Less: tax on goodwill amortisation	**(0.6)**	**(0.6)**	(0.6)	(0.6)
Adjusted profit after tax	**37.3**	**37.3**	30.6	30.6
	million	**million**	million	million
Weighted average number of shares	**35.4**	**35.4**	35.1	35.1
Weighted average number of unexercised options – dilutive effect	**–**	**0.1**	–	0.1
Weighted average impact of LTIP	**–**	**0.2**	–	0.2
Weighted average number of shares used for EPS	**35.4**	**35.7**	35.1	35.4
	pence	**pence**	pence	pence
Earnings per share	**106.8**	**105.9**	81.5	80.8
Adjusted earnings per share (before exceptional items)	**100.0**	**99.2**	81.5	80.8
Adjusted earnings per share (before exceptional items and goodwill amortisation)	**105.4**	**104.5**	87.2	86.4

Notes to the financial statements
continued

11 Intangible assets

Group	Goodwill £m
Cost	
At 1 July 2004 and 30 June 2005	**22.1**
Amortisation	
At 1 July 2004	3.5
Charge for the year	2.5
At 30 June 2005	**6.0**
Net book value	
At 30 June 2005	**16.1**
At 30 June 2004	18.6

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

12 Tangible fixed assets

Group	Land and buildings £m	Plant, vehicles & fixtures £m	Mining assets £m	Total £m
Cost				
At 1 July 2004	23.2	68.9	17.7	109.8
Additions	5.2	14.0	1.3	20.5
Acquisitions	–	0.3	–	0.3
Disposals	(0.9)	(6.4)	–	(7.3)
Currency realignments	–	0.1	–	0.1
At 30 June 2005	**27.5**	**76.9**	**19.0**	**123.4**
Accumulated depreciation				
At 1 July 2004	0.9	39.7	0.3	40.9
Charge for the year	0.1	8.6	3.6	12.3
Disposals	–	(5.7)	–	(5.7)
Currency realignments	–	0.1	–	0.1
At 30 June 2005	**1.0**	**42.7**	**3.9**	**47.6**
Net book value				
At 30 June 2005	**26.5**	**34.2**	**15.1**	**75.8**
At 30 June 2004	22.3	29.2	17.4	68.9

The net book value of land and buildings comprises freeholds of £25.2m (2004: £21.1m), long leaseholds of £0.8m (2004: £1.0m) and short leaseholds of £0.5m (2004: £0.2m).

13 Investments

a) Movements in year

	Group £m	Company £m
Interest in subsidiary undertakings		
At 1 July 2004 and 30 June 2005	**–**	55.3
Investment in joint ventures		
At 1 July 2004	32.2	–
Additions	1.5	–
Disposals/refinancing	(10.3)	–
Share of retained profit	0.7	–
Dividends received	(0.4)	–
Currency realignments	0.1	–
At 30 June 2005	**23.8**	–
Total investments	**23.8**	55.3

b) Analysis of investment in joint ventures

	Group				
	2005 Kier Developments Limited £m	2005 Prospect Healthcare (Hairmyres) Limited £m	2005 Other joint ventures £m	2005 Total £m	2004 Total £m
Investment in joint ventures					
Fixed assets	**4.8**	**–**	**0.2**	**5.0**	0.1
Current assets	**76.8**	**45.0**	**91.5**	**213.3**	194.7
Gross assets	**81.6**	**45.0**	**91.7**	**218.3**	194.8
Creditors – amounts falling due within one year	**(16.7)**	**(2.6)**	**(11.2)**	**(30.5)**	(25.3)
Creditors – amounts falling due after more than one year	**(62.8)**	**(50.2)**	**(78.3)**	**(191.3)**	(165.4)
Net external assets	**2.1**	**(7.8)**	**2.2**	**(3.5)**	4.1
Loans provided to joint ventures	**18.8**	**4.3**	**4.2**	**27.3**	28.1
Total investment in joint ventures	**20.9**	**(3.5)**	**6.4**	**23.8**	32.2

Details of the Group's principal operating subsidiaries are given on page 84. Details of the Group's interest in joint ventures are given on page 85.

14 Stock

	Group 2005 £m	Group 2004 £m
Raw materials and consumables	**2.4**	2.5
Long-term contract balances	**6.0**	18.3
Land and work in progress held for development	**311.4**	297.9
Other work in progress	**14.4**	9.9
	334.2	328.6

Notes to the financial statements
continued

15 Debtors

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Amounts falling due within one year:				
Trade debtors	**185.5**	175.8	**–**	–
Amounts recoverable on contracts	**28.5**	24.5	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**18.7**	21.2
Amounts receivable from joint ventures	**1.1**	2.5	**–**	–
Other debtors	**3.7**	6.2	**2.7**	2.2
Prepayments and accrued income	**21.7**	6.3	**–**	–
Corporation tax	**–**	–	**0.6**	0.6
Other taxation	**4.8**	9.7	**–**	–
	245.3	225.0	**22.0**	24.0
Amounts falling due after more than one year:				
Amounts recoverable on contracts	**8.5**	6.2	**–**	–
Other debtors	**6.1**	–	**–**	–
	14.6	6.2	**–**	–
Total debtors	**259.9**	231.2	**22.0**	24.0

16 Creditors

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Amounts falling due within one year:				
Bank loans and overdrafts	**5.3**	3.7	**174.4**	57.5
Payments received on account	**3.8**	1.7	**–**	–
Trade creditors	**374.7**	360.0	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**21.7**	19.4
Proposed dividend	**5.4**	4.6	**5.4**	4.6
Corporation tax	**9.5**	5.1	**–**	–
Other taxation and social security costs	**18.1**	13.5	**–**	–
Other creditors	**17.2**	18.6	**1.9**	2.6
Accruals and deferred income	**153.3**	123.5	**–**	–
	587.3	530.7	**203.4**	84.1
Amounts falling due after more than one year:				
Long-term borrowings	**30.1**	30.1	**30.1**	30.1
Trade creditors	**14.4**	26.6	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**7.5**	10.0
Accruals and deferred income	**3.8**	1.8	**–**	–
	48.3	58.5	**37.6**	40.1

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

The amount of £7.5m (2004: £10.0m) due to subsidiary undertakings relates to loans which were made to the Company in accordance with the provisions of Sections 151 to 158 of the Companies Act 1985. The loans bear interest at 1% over bank base rate and are fully repayable by 3 July 2006.

17 Provisions for liabilities and charges

Group	Restoration of mining sites £m	Deferred tax £m	Contract provisions £m	Total £m
At 1 July 2004	4.0	0.4	10.9	15.3
Utilised	–	–	(9.0)	(9.0)
Unwinding of discount	0.3	–	–	0.3
Additions	0.4	2.4	10.9	13.7
At 30 June 2005	**4.7**	**2.8**	**12.8**	**20.3**

Deferred taxation is fully provided as follows:

	2005 £m	2004 £m
Accelerated capital allowances	**2.0**	2.3
Short-term timing differences	**2.0**	(0.7)
Unrelieved tax losses	**(1.2)**	(1.2)
Provision for deferred tax	**2.8**	0.4

18 Obligations under leasing agreements

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

	Land and buildings		Plant and machinery	
	2005 £m	2004 £m	2005 £m	2004 £m
Operating leases expiring:				
Within one year	**0.3**	0.1	**1.9**	1.3
Between one and five years	**0.4**	0.6	**7.3**	6.7
In five years or more	**2.2**	2.1	**0.7**	0.5
	2.9	2.8	**9.9**	8.5

Notes to the financial statements
continued

19 Financial instruments

At 30 June 2005, the Group had cash, overdrafts and long-term borrowings denominated in the following currencies:

	2005			2004		
	Financial assets £m	Financial liabilities £m	Aggregate £m	Financial assets £m	Financial liabilities £m	Aggregate £m
Currency						
Sterling	**89.4**	**(21.9)**	**67.5**	35.6	(16.7)	18.9
US dollar	**2.2**	**(13.4)**	**(11.2)**	2.1	(16.9)	(14.8)
Hong Kong dollar	**0.5**	**–**	**0.5**	2.5	–	2.5
Other	**1.4**	**(0.1)**	**1.3**	1.2	(0.2)	1.0
Total	**93.5**	**(35.4)**	**58.1**	41.4	(33.8)	7.6

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

	2005 £m	2004 £m
Due in one year or less	**(5.3)**	(3.7)
Due in more than five years	**(30.1)**	(30.1)
	(35.4)	(33.8)

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

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

In addition to the financial assets and liabilities stated above, the Group had trade creditors due after more than one year which comprise the following:

	2005 £m	2004 £m
Land creditors	**6.6**	14.8
Deferred consideration for acquisition	**3.4**	4.6
Others	**4.4**	7.2
	14.4	26.6

The weighted average period to maturity of the land creditors is 21 months (2004: 22 months). The fair value of these liabilities is £6.0m (2004: £13.3m). The discount rate applied is equivalent to the Group's current incremental borrowing rate.

The deferred consideration for acquisition relates to the balance of consideration payable on the Sheffield acquisition (see note 22c). In accordance with FRS 7 'Fair Values in Acquisition Accounting' the deferred consideration has been discounted to reflect the fair value of the Group's liability.

19 Financial instruments continued

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

Forward contracts are entered into to hedge part of the Group's exposure to foreign currency and fuel price fluctuations.

	Book value £m	Fair value £m
Currency swaps	–	–
Fuel forward contracts	–	**1.1**

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

	Undrawn facility £m
2006	**15.0**
2007	**52.5**
	67.5

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

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

20 Share capital

The share capital of the Company comprises:

	2005		2004	
	Number	**£m**	Number	£m
Ordinary Shares of 1p each Authorised	**45,000,000**	**0.5**	45,000,000	0.5
Issued and fully paid	**35,686,844**	**0.4**	35,525,754	0.4

During the year 161,090 Ordinary Shares were issued at a total premium of £0.8m, of which 77,421 were issued as a scrip dividend alternative at a premium of £0.6m and 83,669 were issued under Performance Options and the Sharesave Scheme at a premium of £0.2m.

At 30 June 2005 there were options outstanding to subscribe for Ordinary Shares as follows:

	Number	Period exercisable	Option price
Sharesave	558,427	2007	625p
Performance related	11,764	1999-2006	170p
Performance related	2,000	2001-2008	189.5p

Notes to the financial statements
continued

21 Reserves

a) The movement on reserves is as follows:

Group	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Share scheme reserve £m	Profit & loss £m
At 1 July 2004	17.1	–	2.7	(0.4)	96.6
Issue of shares	0.8	–	–	–	–
Movement during the year (note 21b)	–	–	–	0.2	–
Profit for the year	–	–	–	–	37.8
Currency translation	–	–	–	–	0.1
Dividends	–	–	–	–	(7.9)
At 30 June 2005	**17.9**	**–**	**2.7**	**(0.2)**	**126.6**

The cumulative amount charged direct to profit and loss reserve in respect of goodwill is £9.1m (2004: £9.1m).

Company	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Share scheme reserve £m	Profit & loss £m
At 1 July 2004	17.1	1.2	2.7	(0.8)	10.3
Issue of shares	0.8	–	–	–	–
Movement during the year (note 21b)	–	–	–	(0.2)	–
Profit for the year	–	–	–	–	7.9
Dividends	–	–	–	–	(7.9)
At 30 June 2005	**17.9**	**1.2**	**2.7**	**(1.0)**	**10.3**

b) Share scheme reserve

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

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Own shares held by Kier Group 1999 Employee Benefit Trust				
At 1 July	**(1.2)**	(1.5)	**(1.2)**	(1.5)
Purchases	**(0.4)**	(0.1)	**(0.4)**	(0.1)
Awards under LTIP	**0.2**	0.4	**0.2**	0.4
At 30 June	**(1.4)**	(1.2)	**(1.4)**	(1.2)
Accrued share based payments				
At 1 July	**0.8**	0.8	**0.4**	0.5
Awards under LTIP	**(0.2)**	(0.4)	**(0.1)**	(0.3)
Charge for the year	**0.6**	0.4	**0.1**	0.2
At 30 June	**1.2**	0.8	**0.4**	0.4
Net reserve	**(0.2)**	(0.4)	**(1.0)**	(0.8)

At 30 June 2005 the Kier Group 1999 Employee Benefit Trust held 256,331 Ordinary Shares in Kier Group plc at a cost of £1.4m (2004: 267,414 at a cost of £1.2m). The market value of these shares at 30 June 2005 was £2.3m. The dividends on these shares have been waived.

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

During the year the Kier Group 1999 Employee Benefit Trust acquired a further 50,000 Ordinary Shares in Kier Group plc at a cost of £0.4m (2004: 20,000 Ordinary Shares at a cost of £0.1m) and issued 61,083 shares to directors in satisfaction of the 2001 LTIP award at a cost of £0.2m.

22 Cash flow notes

a) Reconciliation of operating profit to operating cash flows

	2005 £m	2004 £m
Group operating profit	**48.6**	39.4
Amortisation of goodwill	**2.5**	2.6
Depreciation charges	**12.3**	8.1
Profit on sale of fixed assets	**(0.5)**	(1.3)
Decrease/(increase) in stocks	**18.5**	(52.1)
Increase in debtors	**(28.7)**	(26.2)
Increase in creditors	**31.9**	27.9
Increase/(decrease) in provisions	**1.8**	(2.1)
Net cash inflow/(outflow) from operating activities	**86.4**	(3.7)

b) Analysis of changes in net funds

	1 July 2004 £m	Cash flows £m	30 June 2005 £m
Cash at bank and in hand	11.1	68.2	**79.3**
Bank overdrafts	(3.7)	(1.6)	**(5.3)**
Short-term bank deposits	30.3	(16.1)	**14.2**
Long-term borrowings	(30.1)	–	**(30.1)**
Cash, net of debt	7.6	50.5	**58.1**

Cash, net of debt includes £6.2m (2004: £10.2m) being the Group's share of cash and liquid resources held by joint arrangements and £16.6m (2004: £13.6m) of cash not readily available to the Group.

c) Acquisitions and disposals

	2005 £m	2004 £m
Investment in subsidiary undertakings	**(16.5)**	(17.0)
Disposal of investment in Kier Hong Kong	**0.8**	–
Disposal of investment in PFI joint venture	**5.0**	–
Refinancing of PFI joint venture	**8.1**	–
Investment in joint ventures	**(1.5)**	(0.2)
	(4.1)	(17.2)

Notes to the financial statements continued

22 Cash flow notes continued

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

The consideration is payable as follows:

	£m
Total consideration payable	**16.7**
Paid at 30 June 2004	**(11.1)**
Paid during the year ended 30 June 2005	**(1.5)**
Unwinding of discount	**0.6**
Deferred at 30 June 2005	**4.7**
Due in one year or less	**1.3**
Due between one and five years	**3.4**
	4.7

Acquisition of Ashwood Homes
On 10 June 2005 the Group acquired the business of Ashwood Homes. The consideration payable was £23.5m representing the value of the net assets acquired; £15.0m was paid immediately in cash with £8.5m deferred until March 2006.

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

	Book and fair value £m
Tangible fixed assets	**0.3**
Stock and work in progress	**24.1**
Creditors	**(0.9)**
Consideration payable	**23.5**

The effect of the acquisition on the results for the year ended 30 June 2005 is not material.

23 Capital commitments

Group	2005 £m	2004 £m
Contracted for but not provided in the accounts	**2.1**	2.3

24 Transactions with related parties

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

	2005 £m	2004 £m
Construction services and materials	**37.7**	36.7
Staff and associated costs	**9.4**	13.4
Management services	**2.0**	4.1
	49.1	54.2

Amounts due from related parties are analysed below:

	2005 £m	2004 £m
Academy Services (Tendring) Limited	**0.4**	0.4
Academy Services (Waltham Forest) Limited	**0.2**	–
ASK (Greenwich) Limited	**0.8**	–
Baglan Moor Healthcare PLC	**–**	3.4
Information Resources (Bournemouth) Limited	**0.7**	0.8
Prospect Healthcare (Hairmyres) Limited	**4.5**	5.3
Prospect Healthcare (Hinchingbrooke) Limited	**0.8**	–
Prospect Healthcare (Reading) Limited	**1.7**	1.9
Kier Developments Limited	**18.8**	18.8
	27.9	30.6

25 Contingent liabilities

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

Transition to International Financial Reporting Standards
Restatement of financial information for the year ended 30 June 2005

Kier Group plc has adopted International Financial Reporting Standards (IFRS) with effect from 1 July 2005, in accordance with European Union (EU) regulations. Kier Group will therefore publish its results for the six months to 31 December 2005 and its Annual Report and Accounts for the year to 30 June 2006 in accordance with IFRS.

The results for the year to 30 June 2005 under UK Generally Accepted Accounting Practice (GAAP) are set out on pages 52 to 75. This statement on pages 76 to 83 sets out an unaudited restatement of those results and net assets under IFRS. The resulting balance sheets and income statement must be regarded as preliminary and will only be determined with certainty when the Group issues its annual financial statements under IFRS for the year to 30 June 2006.

The key points relating to the restatement are:

- The transition to IFRS has no impact on business operations, cash, financing or the ability to pay dividends;
- There is no impact on the profit recognition policy for Construction or Support Services and only minor impact on profit recognition for Housebuilding and Property;
- The most significant effect of IFRS is in accounting for pensions which reduces stated net assets; and
- No account has been taken of IAS 32 and IAS 39 'Financial Instruments'. This will apply to Kier from 1 July 2005 with there being no requirement to restate comparatives.

This statement sets out the following, restated in accordance with IFRS.

- A consolidated income statement for the year to 30 June 2005;
- A consolidated statement of changes in equity for the year to 30 June 2005; and
- Consolidated balance sheets at 30 June 2004 and 2005.

An explanation of the principal differences between UK GAAP and IFRS affecting Kier Group plc is set out in note 2 on pages 79 and 80 and reconciliations of the statements from UK GAAP to IFRS are set out in note 4 on pages 81 to 83. Note 3 on page 80 sets out an explanation relating to two areas (largely affecting PFI concessions) where there is no requirement to apply IAS to the balance sheet at 30 June 2005 but where there is likely to be an impact in the future.

Consolidated income statement – restated in accordance with IFRS
for the year ended 30 June 2005 (unaudited)

	2005 £m
Continuing operations	
Total revenue	**1,623.2**
Revenue – joint ventures	**(50.2)**
Group revenue	**1,573.0**
Cost of sales	**(1,433.8)**
Gross profit	**139.2**
Administrative expenses	**(91.1)**
Share of post tax profits from joint ventures	**0.9**
Profit from operations	**49.0**
Other income[1]	**6.7**
Finance cost (net) – Group	**(1.2)**
Profit before tax	**54.5**
Taxation	**(17.9)**
Profit for the year	**36.6**
Earnings per Ordinary Share	
– basic	**103.4p**
– diluted	**102.5p**
Adjusted earnings per Ordinary Share (excluding other income)[2]	
– basic	**96.6p**
– diluted	**95.8p**

1 Other income represents the exceptional items disclosed under UK GAAP.
2 Adjusted earnings per Ordinary Share under IFRS has been calculated after deducting the amortisation of the intangible asset relating to the Sheffield contract (£1.9m pre-tax; £1.3m net of tax).

Consolidated statement of changes in equity – restated in accordance with IFRS
for the year ended 30 June 2005 (unaudited)

	Share capital £m	Share premium £m	Capital redemption reserve £m	Share scheme reserve £m	Retained earnings £m	Total £m
Balance at 1 July 2004	0.4	17.2	2.7	(0.3)	31.2	**51.2**
Foreign exchange translation differences					0.1	**0.1**
Actuarial gains and losses in pension scheme					(41.5)	**(41.5)**
Deferred tax on actuarial gains and losses in pension scheme					12.5	**12.5**
Net income recognised directly in equity					(28.9)	**(28.9)**
Profit for the year					36.6	**36.6**
Total recognised income for the year					7.7	**7.7**
Dividends					(7.1)	**(7.1)**
Issue of shares		0.8				**0.8**
Share based payments		0.2				**0.2**
Balance at 30 June 2005	**0.4**	**18.2**	**2.7**	**(0.3)**	**31.8**	**52.8**

Consolidated balance sheet – restated in accordance with IFRS (unaudited)
at 30 June 2005

	2005 £m	2004 £m
Non current assets		
Intangible assets	**16.7**	18.6
Property, plant and equipment	**75.8**	68.9
Investment in joint ventures	**23.6**	31.8
Deferred tax assets	**37.6**	27.7
Trade and other receivables	**14.6**	6.2
Non current assets	**168.3**	153.2
Current assets		
Inventories	**325.7**	321.8
Trade and other receivables	**233.3**	225.0
Cash and cash equivalents	**93.5**	41.4
Current assets	**652.5**	588.2
Total assets	**820.8**	741.4
Current liabilities		
Bank overdrafts and loans	**(5.3)**	(3.7)
Trade and other payables	**(566.5)**	(516.4)
Tax liabilities	**(9.5)**	(5.1)
Current liabilities	**(581.3)**	(525.2)
Non current liabilities		
Interest-bearing loans and borrowings	**(30.1)**	(30.1)
Trade and other payables	**(17.2)**	(26.1)
Retirement benefit obligations	**(121.9)**	(92.5)
Long-term provisions	**(17.5)**	(14.9)
Deferred tax liabilities	**–**	(1.4)
Non current liabilities	**(186.7)**	(165.0)
Total liabilities	**(768.0)**	(690.2)
Net assets	**52.8**	51.2
Equity		
Share capital	**0.4**	0.4
Share premium	**18.2**	17.2
Capital redemption reserve	**2.7**	2.7
Share scheme reserve	**(0.3)**	(0.3)
Retained earnings	**31.8**	31.2
Total equity	**52.8**	51.2

Selected notes to the IFRS statements

1 Basis of preparation

The restated financial statements have been prepared in accordance with IFRS for illustrative purposes. The transition to IFRS is governed by the requirements of IFRS 1 'First-time adoption of IFRS'. The opening balance sheet on 1 July 2004 (the date of transition to IFRS) has been prepared using accounting policies which the directors expect to be applicable for the year to 30 June 2006 except for the requirement to apply IAS 32 and IAS 39 'Financial Instruments'. The Group has taken advantage of the exemption in IFRS 1 that enables the application of IAS 32 and IAS 39 to be delayed to 1 July 2005 without the requirement to restate comparative figures.

The principal differences between UK GAAP and IFRS for the Group are set out in note 2. Note 3 sets out the potential effect of IAS 32 and IAS 39 'Financial Instruments' on Kier Group as at 1 July 2005 and includes details on the draft standard on accounting for service concessions. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in the reconciliation schedules in note 4.

2 Principal differences between UK GAAP and IFRS

There are eight principal differences which give rise to changes in the Group's reported profit for the year to 30 June 2005 and net assets at 30 June 2005. These are categorised as follows:

i) Retirement benefit costs
ii) Sales and marketing costs
iii) Deferred land payments
iv) Property transactions
v) Other adjustments including:

- proposed dividends
- deferred tax
- share-based payments
- goodwill

In addition there is a change to the way in which joint ventures are disclosed having no impact on net assets or net profits.

i) Retirement benefit costs

Under UK GAAP the Group accounted for its defined benefit schemes in accordance with SSAP 24 'Accounting for Pension Costs'. The cost of providing the defined benefit pensions was charged against 'operating profit' with surpluses and deficits arising in the funds amortised to 'operating profit' over the remaining service lives of participating employees. Under IAS 19 'Employee Benefits' the cost of providing pension benefits (current service cost) for defined benefit pensions schemes is recognised in the income statement, together with the interest cost arising on the projected obligations and returns on scheme assets. The defined benefit obligation is determined annually by independent actuaries and recognised on the balance sheet. Actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they occur.

The financial impacts arising from these changes are:

– a reduction of £93.7m will be reported on the restated 30 June 2005 balance sheet to reflect the pension liability; and
– the charge to the income statement will reduce by £0.1m before tax.

This impact is similar to that arising under the UK GAAP standard FRS 17 'Retirement Benefits', details of which are disclosed in note 7 on pages 61 to 63.

ii) Sales and marketing costs

Under current Group accounting policies adopted in accordance with UK GAAP sales and marketing costs for the Homes and Property divisions are capitalised in site work in progress and written off through cost of sales as the site progresses. Under IAS 2 'Inventories' costs relating to sales and marketing activities are required to be written off as incurred.

The financial impact of this on the restated 30 June 2005 results and balance sheet are:

– a reduction in net assets of £3.9m (after tax); and
– a £1.8m increase in the charge to the income statement (£1.3m after tax).

iii) Deferred land payments

Under UK GAAP deferred land payments (land creditors) are included in 'creditors' at their gross value. Under IAS 2 'Inventories' imputed interest is recognised on deferred land payments with the result that the land creditors are carried in the balance sheet at net present value and the value of land held on the balance sheet in inventories is reduced. The unwinding of the imputed interest (or discount) on land creditors is charged to finance cost and the reduction in land values in inventories will result in an eventual reduction in cost of sales as the land is traded out. The effect of this is to increase the charge to the 2005 income statement by £1.6m (£1.1m after tax) with a consequential effect on net assets at 30 June 2005. The increased charge represents the 'interest cost' of the deferred payments of £2.1m less the increase in operating profit brought about by a reduction in the land value written off through cost of sales amounting to £0.5m.

iv) Property transactions

Under current Group accounting policies where Group property developments are sold with construction being undertaken directly by the Group, turnover and profit are recognised over the life of the contract in accordance with SSAP 9 'Stocks and Long-Term Contracts.'

Under IAS 18 'Revenue', where such developments are sold in advance of the construction contract being signed, then the sale can be considered to be a construction contract. As such, revenue and profit should be recognised in accordance with IAS 11 'Construction Contracts' over the term of the construction contract (as for SSAP 9). However, if the sale is agreed after the construction contract is signed, revenue and profits can only be recognised when construction has been completed.

The impact of this is to defer revenue of £1.8m and profit before tax of £0.5m (£0.3m after tax) taken in the year to June 2004 under UK GAAP until the year to June 2005.

Selected notes to the IFRS statements continued

2 Principal differences between UK GAAP and IFRS continued

v) Other adjustments

Other changes to accounting policies that will have an impact on restated net assets and the profit for the year to June 2005 under IFRS are as follows:

	Profit after tax for the year to June 2005 £m	Net assets June 2005 £m
a) Proposed dividends	–	5.4
b) Deferred taxation	0.2	(2.0)
c) Share-based payments	–	0.1
d) Goodwill	0.6	0.6
Net impact	**0.8**	**4.1**

a) Proposed dividends

Under UK GAAP, proposed dividends are recognised as a liability in the period to which they relate. Under IAS 10 'Events after the Balance Sheet Date' dividends are not recognised as a liability until they are declared. As a result the provision for the final dividend is eliminated, increasing net assets at June 2005 by £5.4m.

b) Deferred taxation

IAS 12 'Income Taxes' requires deferred tax to be recognised on all temporary differences and not just timing differences as previously under UK GAAP. Deferred tax liabilities are recognised in full but deferred tax assets are only recognised if future taxable profits are available to cover the assets.

As a result the provision for deferred tax liabilities will increase at June 2005 by £2.0m which reduces restated net assets.

c) Share-based payments

IFRS 2 'Share-based Payments' requires that share-based payments granted after 7 November 2002, but not vested, should be valued at the fair value of the shares at the date of grant. This affects the Sharesave and Long-Term Incentive Plan schemes. The fair value of these shares at date of award has been calculated using the Black Scholes model. The impact on profits and net assets is not significant.

d) Goodwill and intangible assets

Under UK GAAP, goodwill is amortised on a straight line basis over its useful economic life (in the case of Kier for up to 10 years) tested for impairment and provided for as necessary. Under IFRS 3 'Business Combinations' goodwill is no longer amortised but is carried at cost and subject to annual review for impairment at 30 June. It is effectively frozen at June 2004 with amounts amortised subsequently under UK GAAP being reinstated. At June 2004 the Group balance sheet contained £18.6m of goodwill. £13.4m of this relates to the business and assets of the construction and building services operation of Sheffield City Council. This has been reclassified from goodwill to intangible assets in respect of contract rights under IFRS and will continue to be amortised on a straight line basis over the remaining life of the contract. The balance of £5.2m relates to the acquisition of Partnerships First in 2002. This balance has been maintained at the 30 June 2004 carrying value. As a result goodwill amortisation of £0.6m under UK GAAP for the year ended 30 June 2005 has been added back increasing profits and net assets by £0.6m at June 2005.

vi) Joint ventures (disclosure item)

Under IFRS the results of joint ventures may be accounted for either under the net equity method or proportional consolidation.

The Group currently reports its joint ventures under UK GAAP using the net equity method and has opted to continue to follow this method. Under the net equity method trading results from joint ventures are shown net of tax within profit before tax. This has no impact on net assets or on profit after tax.

3 Other differences between UK GAAP and IAS largely relating to PFI concessions

i) Financial instruments

The accounting for, and presentation of, financial instruments is dealt with under IAS 39 'Financial instruments: Recognition and measurement' and IAS 32 'Financial instruments: Disclosure and presentation'. Under UK GAAP there is no comprehensive standard which addresses the accounting for financial instruments. FRS 13 'Derivatives and other financial instruments' in the UK requires disclosures to be made in respect of financial instruments but these are less comprehensive than IAS 32.

As permitted by IFRS 1, the Group has elected not to restate comparative information in accordance with IAS 39 and IAS 32. The significant changes in accounting polices that will arise when IAS 39 and IAS 32 are applied from 1 July 2005 are in relation to the accounting treatment of derivative financial instruments.

The Group does not enter into significant derivative transactions. However a number of the Group's joint ventures (including PFI joint ventures) enter into interest rate swap derivatives. IAS 39 requires the fair value of derivative financial instruments to be included on balance sheet. Under UK GAAP they are not recognised. IAS 39 requires interest rate swap derivatives to be accounted for as cash flow hedges and movements in fair value are recognised in equity provided the hedge is effective. The Group's share of the fair value of these interest rate swaps together with other minor Group derivatives, at 1 July 2005 results in a liability of £10.4m (excluding the Group's share of the related deferred tax). The application of IAS 39 at that date will reduce the net assets of the Group by £7.3m (£10.4m less tax).

ii) Accounting for service concessions

In March 2005, the International Financial Reporting Interpretations Committee (IFRIC) issued draft guidance on accounting for service concession arrangements (drafts D12 to D14). IFRIC is currently considering the comments received on this draft guidance, with final guidance expected to be issued by the end of 2005.

Until the final guidance is issued and endorsed by the EU and in the absence of specific guidance within IFRS, the Group has recognised the FRS 5 'Reporting the substance of transactions' finance debtors relating to concession arrangements held by PFI jointly controlled entities at amortised cost. The effect of adopting this policy is to maintain the accounting within PFI joint ventures in line with existing UK GAAP whilst ensuring that the accounting treatment remains consistent with existing IFRS.

The draft guidance from IFRIC, if it were issued in final form, would potentially require a number of changes to the accounting treatment of service concession arrangements. One of the more significant aspects would be the requirement to recognise the assets associated with concession arrangements at fair value. This requirement could potentially produce an increase in the Group's share of the net carrying value of the PFI jointly controlled entities affected which would offset the effects of IAS 39 set out above.

4 Reconciliation of UK GAAP to IFRS

The effects of the differences between UK GAAP and IFRS, as set out in note 2, are shown below in the consolidated income statement for the year to 30 June 2005, the consolidated statement of recognised income and expense for the year to 30 June 2005 and the consolidated balance sheets at 30 June 2004 and 2005.

a) Consolidated income statement for the year ended 30 June 2005 – reconciliation UK GAAP to IFRS

Notes	UK GAAP Balances in IAS format £m	Adjustments (i) Retirement benefits £m	(ii) Sales & marketing £m	(iii) Deferred land payments £m	(iv) Property transactions £m	(v) Other £m	(vi) Joint ventures £m	IFRS £m
Continuing operations								
Total revenue	**1,621.4**				1.8			**1,623.2**
Revenue – joint ventures	**(48.4)**				(1.8)			**(50.2)**
Group revenue	**1,573.0**				–			**1,573.0**
Cost of sales	**(1,430.7)**		(1.7)	0.5		(1.9)		**(1,433.8)**
Gross profit	**142.3**		(1.7)	0.5	–	(1.9)		**139.2**
Administrative expenses	**(91.2)**	0.1						**(91.1)**
Goodwill amortisation	**(2.5)**					2.5		**–**
Operating profit – joint ventures	**4.8**		(0.1)		0.5		(5.2)	**–**
Share of post tax profits from joint ventures	**–**						0.9	**0.9**
Profit from operations	**53.4**	0.1	(1.8)	0.5	0.5	0.6	(4.3)	**49.0**
Other income	**6.7**							**6.7**
Finance income/cost (net) – group	**0.9**			(2.1)				**(1.2)**
Finance cost – joint ventures	**(3.1)**						3.1	**–**
Profit before tax	**57.9**	0.1	(1.8)	(1.6)	0.5	0.6	(1.2)	**54.5**
Taxation	**(20.1)**		0.5	0.5	(0.2)	0.2	1.2	**(17.9)**
Profit for the year	**37.8**	0.1	(1.3)	(1.1)	0.3	0.8	–	**36.6**

Earnings per Ordinary Share	**106.8p**	**103.4p**
Adjusted earnings per Ordinary Share (excluding other income and goodwill amortisation)	**105.4p**	**96.6p**

b) Consolidated statement of recognised income and expense for the year ended 30 June 2005 – reconciliation UK GAAP to IFRS

Notes	UK GAAP Balances in IAS format £m	IFRS Adjustments (i) Retirement benefits £m	(ii) Sales & marketing £m	(iii) Deferred land payments £m	(iv) Property transactions £m	(v) Other £m	(vi) Joint ventures £m	IFRS £m
Foreign exchange translation differences	**0.1**							**0.1**
Actuarial gains and losses in pension scheme		(41.5)						**(41.5)**
Deferred tax on actuarial gains and losses in pension scheme	**–**	12.5						**12.5**
Net income recognised directly in equity	**0.1**	(29.0)						**(28.9)**
Profit for the year	**37.8**	0.1	(1.3)	(1.1)	0.3	0.8		**36.6**
Dividends	**(7.9)**					0.8		**(7.1)**
Retained earnings for the year	**30.0**	(28.9)	(1.3)	(1.1)	0.3	1.6	–	**0.6**
Retained earnings at 30 June 2004	**96.6**	(64.8)	(2.6)	–	(0.3)	2.3	–	**31.2**
Retained earnings at 30 June 2005	**126.6**	(93.7)	(3.9)	(1.1)	–	3.9	–	**31.8**

Selected notes to the IFRS statements continued

c) Consolidated balance sheet at 30 June 2005 – reconciliation UK GAAP to IFRS

Notes	UK GAAP Balances in IAS format £m	IFRS Adjustments (i) Retirement benefits £m	(ii) Sales & marketing £m	(iii) Deferred land payments £m	(iv) Property transactions £m	(v) Other £m	IFRS £m
Non current assets							
Intangible assets	**16.1**					0.6	**16.7**
Property, plant and equipment	**75.8**						**75.8**
Investment in joint ventures	**23.8**		(0.2)				**23.6**
Deferred tax assets	**–**	36.6				1.0	**37.6**
Trade and other receivables	**14.6**						**14.6**
Non current assets	**130.3**	36.6	(0.2)			1.6	**168.3**
Current assets							
Inventories	**334.2**		(5.3)	(3.2)			**325.7**
Trade and other receivables	**245.3**	(12.0)					**233.3**
Cash and cash equivalents	**93.5**						**93.5**
Current assets	**673.0**	(12.0)	(5.3)	(3.2)			**652.5**
Total assets	**803.3**	24.6	(5.5)	(3.2)		1.6	**820.8**
Current liabilities							
Bank overdrafts and loans	**(5.3)**						**(5.3)**
Trade and other payables	**(572.5)**			0.6		5.4	**(566.5)**
Tax liabilities	**(9.5)**						**(9.5)**
Current liabilities	**(587.3)**			0.6		5.4	**(581.3)**
Non current liabilities							
Interest-bearing loans and borrowings	**(30.1)**						**(30.1)**
Trade and other payables	**(18.2)**			1.0			**(17.2)**
Retirement benefit obligations	**–**	(121.9)					**(121.9)**
Long-term provisions	**(17.5)**						**(17.5)**
Deferred tax liabilities	**(2.8)**	3.6	1.6	0.5		(2.9)	**–**
Non current liabilities	**(68.6)**	(118.3)	1.6	1.5		(2.9)	**(186.7)**
Total liabilities	**(655.9)**	(118.3)	1.6	2.1		2.5	**(768.0)**
Net assets	**147.4**	(93.7)	(3.9)	(1.1)		4.1	**52.8**
Equity							
Share capital	**0.4**						**0.4**
Share premium	**17.9**					0.3	**18.2**
Capital redemption reserve	**2.7**						**2.7**
Share scheme reserve	**(0.2)**					(0.1)	**(0.3)**
Retained earnings	**126.6**	(93.7)	(3.9)	(1.1)		3.9	**31.8**
Total equity	**147.4**	(93.7)	(3.9)	(1.1)		4.1	**52.8**

d) Opening consolidated balance sheet at 30 June 2004 – reconciliation UK GAAP to IFRS

Notes	UK GAAP Balances in IAS format £m	IFRS Adjustments (i) Retirement benefits £m	(ii) Sales & marketing £m	(iii) Deferred land payments £m	(iv) Property transactions £m	(v) Other £m	IFRS £m
Non current assets							
Intangible assets	**18.6**						**18.6**
Property, plant and equipment	**68.9**						**68.9**
Investment in joint ventures	**32.2**		(0.1)		(0.3)		**31.8**
Deferred tax assets	**–**	27.7					**27.7**
Trade and other receivables	**6.2**						**6.2**
Non current assets	**125.9**	27.7	(0.1)		(0.3)		**153.2**
Current assets							
Inventories	**328.6**		(3.6)	(3.2)			**321.8**
Trade and other receivables	**225.0**						**225.0**
Cash and cash equivalents	**41.4**						**41.4**
Current assets	**595.0**		(3.6)	(3.2)			**588.2**
Total assets	**720.9**	27.7	(3.7)	(3.2)	(0.3)		**741.4**
Current liabilities							
Bank overdrafts and loans	**(3.7)**						**(3.7)**
Trade and other payables	**(521.9)**			0.9		4.6	**(516.4)**
Tax liabilities	**(5.1)**						**(5.1)**
Current liabilities	**(530.7)**			0.9		4.6	**(525.2)**
Non current liabilities							
Interest-bearing loans and borrowings	**(30.1)**						**(30.1)**
Trade and other payables	**(28.4)**			2.3			**(26.1)**
Retirement benefit obligations	**–**	(92.5)					**(92.5)**
Long-term provisions	**(14.9)**						**(14.9)**
Deferred tax liabilities	**(0.4)**		1.1			(2.1)	**(1.4)**
Non current liabilities	**(73.8)**	(92.5)	1.1	2.3		(2.1)	**(165.0)**
Total liabilities	**(604.5)**	(92.5)	1.1	3.2		2.5	**(690.2)**
Net assets	**116.4**	(64.8)	(2.6)	–	(0.3)	2.5	**51.2**
Equity							
Share capital	**0.4**						**0.4**
Share premium	**17.1**					0.1	**17.2**
Capital redemption reserve	**2.7**						**2.7**
Share scheme reserve	**(0.4)**					0.1	**(0.3)**
Retained earnings	**96.6**	(64.8)	(2.6)	–	(0.3)	2.3	**31.2**
Total equity	**116.4**	(64.8)	(2.6)	–	(0.3)	2.5	**51.2**

Principal operating subsidiaries

Construction	**Kier Regional Limited** Kier Build Kier Eastern Kier London Kier Northern Kier North West Kier Partnership Homes Limited Kier Scotland Kier Southern Kier Western Marriott Construction Moss Construction Wallis
	Kier Construction Limited
	Kier Plant Limited
Support Services	**Kier Support Services Limited** IEI Building Services Engineers Kier Building Maintenance Kier Islington Limited Kier Sheffield LLP Kier Managed Services Limited
Homes	**Kier Residential Limited** Allison Homes Eastern Limited Bellwinch Homes Limited Kier Homes Limited Kier Land Limited Twigden Homes Limited
Property	Kier Property Limited Kier Developments Limited (50% owned) Kier Ventures Limited
Infrastructure Investment	**Kier Project Investment Limited**
Group Services	**Kier Limited** Kier Engineering Services

Notes:

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

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

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

Principal joint arrangements, joint ventures and associated undertakings

Joint arrangements

Building and/or civil engineering construction

The following joint arrangements, in which the Group participation is between 33% and 50%, operate in England:

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

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

Hong Kong

Kier/Zen	a joint arrangement between Kier Construction and Zen Pacific Limited

Suriname

Kier/CCC	a joint arrangement between Kier Construction and Commercial Contracting Company of San Antonio, Inc.

Jamaica

Kier/CCC	a joint arrangement between Kier Construction and Commercial Contracting Company of San Antonio, Inc.

Romania

Mivan/Kier	a joint arrangement between Mivan Limited and Kier Construction

United States

Kier/CCC	a joint arrangement between Kier Construction and CCC Group, Inc.

Commercial Property Development

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

Joint ventures

	Interest held
Long-term concession holding under the Private Finance Initiative	
Academy Services (Holdings) Limited	50%
Academy Services (Sheffield) Holdings Limited	50%
Academy Services (Waltham Forest) (Holdings) Limited	50%
ASK (Holdings) Limited	50%
Information Resources (Holdings) Limited	50%
Information Resources (Oldham) Holdings Limited	50%
Prospect Healthcare (Hairmyres) Group Limited	50%
Prospect Healthcare (Hinchingbrooke) Holdings Limited	50%
Prospect Healthcare (Reading) Holdings Limited	50%
International construction and contract mining Incorporated and operating in the Hashemite Kingdom of Jordan	
The Jordan Economic Development and Trading Company Limited	50%
Commercial property development	
Kier Developments Limited	50%
Kier Warth Limited	50%

Notes:

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

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

Group principal businesses

Kier Regional
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

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

Kier Build
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

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

Kier Eastern
53 South Brink
Wisbech
Cambridgeshire
PE14 0RQ

S A Tilley *Chairman*
N W Meixner *MD*
N J Bache
I P Greenly
G C Howe
R W Kidger
M M Rooke

Kier London
188 High Road
Loughton
Essex
IG10 1DH

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

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

S A Tilley *Chairman*
W G Kay *MD*
M A Ashton
S Flint
J M Gray
C McNeil
J O'Callaghan

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

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

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

I M Lawson *Chairman*
D L Seal *MD*
D A Burgher
D B Hodson

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

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

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

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

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

P P J Cullen *Chairman*
P R Young *MD*
J L Alton
J S Edmonds
K Payne
J Prosper
D J Snell

Marriott Construction
Marriott House
Brindley Close
Rushden
Northamptonshire
NN10 6EN

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

Moss Construction
96 Leckhampton Road
Cheltenham
Gloucestershire
GL53 0BP

P P J Cullen *Chairman*
R C Butler *MD*
B D Clarke
J S Edmonds
J C Mackman
S Pratt
G J Salmon
P J Turner

Wallis
47 Homesdale Road
Bromley
Kent
BR2 9TN

R H Bush *Chairman*
F Hill *MD*
D Evans
J R Gilbert
J L Hunter
P Kitchener

Kier Construction
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

M P Sheffield *Chairman*
P J Cave *MD*
D J Myers *MD Caribbean & Industrial*
K D Cottam
T P Davies
D J Durey
R A Haller
D Rainford
A W Saul
T W Tagg

Kier Support Services
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

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

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

I M Lawson *Chairman*
R P Manning *MD*
R A Baker
R J Duxfield
D W Stiff

Kier Building Maintenance
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

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

Kier Building Maintenance Leeds
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J R Bradley *Chairman*
D A Sheridan *MD*
C Thomas

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J Nelson *MD*
P P J Quinn
T C Tatham
C Thomas

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

Kier Sheffield
Manor Lane Depot
Manor Lane
Sheffield
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J R Bradley *Chairman*
D A Sheridan *MD*
C M Boath
S M Bullen
D Evans
M I Furze
A R Gamage
J Roney
C Thomas
L F Weaver

Kier Managed Services
Conway House
St Mellons Business Park
Fortran Road
St Mellons
Cardiff
CF3 0LT

I M Lawson *Chairman*
C S Porton *MD*
N J Chidgey
M Davies
M Hill
P C Owen
G S Waugh

Kier Plant
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I M Lawson *Chairman*
I D Gordon *MD*
N J Chidgey
P J Glynn
D E Salter
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Kier Residential
The Shrubbery
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St Neots
Cambridgeshire
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J Dodds *Chairman*
M O'Farrell *MD*
A W Aitchison
T J Barke
K Dixon
L E Garner
D E Mattar
R P Page

Allison Homes Eastern
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Wardentree Park
Pinchbeck
Spalding
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M O'Farrell *Chairman*
P Adams *Acting MD*
M J Chandler
L E Garner
M Jessop
M Smith

Bellwinch Homes
Malcolm House
Empire Way
Wembley
Middlesex
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R P Page *MD*
M C Davies
L E Garner
D F Lomas
J McCormack
J M Nowak
S P White
S J Whitehead

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S A McDonagh
M T McGleish

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T J Barke
L E Garner
I J Mitchell
R P Page

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A E Page
D P Seth
A P Walkerdine

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R Duncombe
N A Turner
I P Woods

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

Kier Engineering Services
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
R A Haller *MD*

Financial record

Year ended 30 June	**2005 £m**	2004 £m	2003 £m	2002 £m	2001 £m
Turnover: Group and share of joint ventures	**1,621.4**	1,476.5	1,445.6	1,382.7	1,251.1
Group operating profit	**48.6**	39.4	33.1	24.8	19.9
Joint ventures – share of operating profit	**4.8**	3.2	3.1	1.4	1.4
Total net interest	**(2.2)**	(2.0)	(0.6)	1.1	0.6
Other	**6.7**	–	(2.3)	0.7	–
Profit before tax	**57.9**	40.6	33.3	28.0	21.9
Taxation	**(20.1)**	(12.0)	(9.5)	(7.7)	(5.9)
Profit after tax	**37.8**	28.6	23.8	20.3	16.0
Dividends	**(7.9)**	(6.8)	(5.6)	(4.8)	(4.1)
Retained profit for the year	**29.9**	21.8	18.2	15.5	11.9
Earnings per Ordinary Share – undiluted	**106.8p**	81.5p	69.5p	60.4p	48.0p
Dividend per Ordinary Share	**22.2p**	19.0p	16.4p	14.2p	12.3p
At 30 June	**£m**	£m	£m	£m	£m
Shareholders' funds	**147.4**	116.4	92.7	73.8	57.8
Net assets per Ordinary Share	**413.0p**	327.7p	265.9p	214.2p	170.3p

Corporate information

Directors
P T Warry MA CEng FIEE FIMechE *Chairman*
J Dodds *Chief Executive*
D E Mattar BSc FCA
R W Side FCIOB FFB MCMI
R W Simkin BSc MRTPI
P F Berry CMG MA
S W Leathes MA FCA

I M Lawson FCIOB (appointed 1 October 2005)
M P Sheffield BSc CEng MICE (appointed 1 October 2005)

M D Barton LLB *Secretary*

Headquarters and Registered Office
Kier Group plc
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Edinburgh
EH3 9BN

Barclays Bank PLC
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London
E14 5HP

Royal Bank of Scotland PLC
135 Bishopsgate
London
EC2M 3UR

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

Stockbrokers
Bridgewell Limited
128 Queen Victoria Street
London
EC4V 4BJ

Financial calendar

26 November 2005
Annual General Meeting

6 December 2005
Payment of final dividend for 2004/05

March 2006
Announcement of half-year results
and interim dividend for 2005/06

May 2006
Payment of interim dividend

September 2006
Announcement of preliminary full-year
results and final dividend for 2005/06

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