# News Release

KIER

**KIER GROUP PLC**

**PRELIMINARY RESULTS FOR THE**

**YEAR TO 30 JUNE 2010**

16 September 2010

- Strong results with underlying pre-tax profits* up 10.6% to £58.4m (2009: £52.8m)
- Adjusted EPS*up 18.3% to 121.3p (2009: 102.5p) enhanced by a 6% reduction in the effective tax rate
- Full year dividend up 5.5% to 58.0p (2009: 55.0p)
- Exceptional items total a credit of £2.2m (2009: charge of £27.3m)
- Record net cash at £175.2m (2009: £92.5m)
- Construction margins maintained at 2.6% (2009: 2.6%) and Support Services margins improved to 4.5% (2009: 4.1%)
- Order books for Construction and Support Services at £4.2bn (2009: £4.5bn) with a strong pipeline of further opportunities
- Our integrated model continues to provide unique opportunities for Kier to offer total solutions to public and private sector clients

*Underlying pre-tax profits and EPS are stated before amortisation of intangible assets of £2.9m (2009: £2.2m) and before exceptional items comprising a pension credit of £16.0m, profits on the sale of two PFI investments of £4.2m offset by a provision of £18.0m in respect of the fine from the OFT the quantum of which we have appealed against.

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

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

"Kier continues to benefit from its established client relationships and financial strength and is well placed to attract work through its wide network of local offices and the numerous frameworks in which it is involved. Our construction order books of secure and probable contracts remain robust, much of it won through framework agreements, providing confidence that we can sustain healthy operating margins and strong cash flows. Our integrated business model provides us with unique opportunities drawing on the strength of our relationships with public and private sector clients and this has proved to be very resilient during the global economic slowdown. We are also encouraged by the prospects we see in markets such as power, utilities, waste and mixed-use regeneration schemes and overseas.

"We have a strong balance sheet, a good track record of service delivery and very talented, capable staff, all of which give us confidence that the Group will make further progress in the new financial year."

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## Chairman's statement

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

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

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

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

### Board changes

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

Deena Mattar, our Group finance director, announced in July 2010 that she would be leaving the Group at the Company's annual general meeting on 12 November 2010 after nine years in her current role and 12 years at Kier. Haydn Mursell joined the Group on 18 August 2010 as Group finance director designate and is expected to take over the role of Group finance director upon Deena's departure. Haydn joins the Group from Balfour Beatty plc where he was deputy finance director.

In September 2010 we announced that Simon Leathes, non-executive director and chairman of the Audit Committee, would also be stepping down from the Board at the Company's annual general meeting after nearly 10 years. He will be succeeded by Richard Bailey who will join the Board on 1 October 2010.

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

### Prospects

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

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

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

**Phil White**
Chairman

## Chief executive's review

### Overview

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

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

### Financial performance

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

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

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

Profit before tax for the year was 9.7% ahead of last year's at £55.5m (2009: £50.6m) after the amortisation of intangible assets and before exceptional items and on the same basis earnings per share were 17.7% ahead at 115.5p (2009: 98.1p) benefiting in part from a 6% reduction in our effective tax rate following the agreement of certain issues with HM Revenue & Customs (HMRC) this year.

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

### Group structure and strategic developments

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

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

Our Developments team, which includes financial and planning expertise, is a key catalyst for generating integrated opportunities across the Group. Its relationships with local authorities continue to provide the Group with the potential to consolidate and develop council-owned properties for the benefit of both clients and Kier. The division will require more cash investment in the short-term as opportunities for further development arise. However, we will continue our strategy of pursuing largely non-speculative development by ensuring we secure pre-lets or pre-sales prior to the commencement of construction.

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

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

Other growth areas include:

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

In Support Services, where we anticipate achieving annual revenues in excess of £500m by 2012, the economic environment in which we find ourselves is providing opportunities for our business, particularly in outsourcing contracts. Our bidding teams are busier then ever helping our local authority partners to address the budgetary pressures which they are facing by providing innovative funding and development solutions and assisting them in their desire to bundle several services into one contract.

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

**Business review, markets and outlook**

## Construction

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

**Construction business review**

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

74% of our awards in the year were for public sector projects, many of them in the education sector which accounted for 41% of awards. The Contractors' Framework for Academies has provided us with 19 schemes comprising 42 schools with a value of over £800m including the first academy on this framework at Milton Keynes, which opened for the new term in September 2009. Twenty of the schools are currently on site, most of which are expected to complete during the next financial year. The remaining schools, valued at £330m, are at preferred bidder stage and have been given the go-ahead by the education secretary. We have also successfully secured our place on the second Academies Framework on which we are preferred bidder on one sample scheme and are shortlisted on three with a potential value in excess of £100m.

In Health, which represents 7% of our awards during the year to 30 June 2010, the ProCure 21 Framework has entered its seventh and final year, having provided us with 90 projects over that period valued at around £500m. Projects with a value of £55m have been awarded in the year, including major A&E schemes at Whipps Cross and Lewisham Hospitals. We were pleased to have recently been announced as one of six contractors on the new ProCure 21+ health projects framework which could be worth up to £4.5bn over the next six years.

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

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

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

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

We have been successful in gaining entry onto the civil engineering, demolition and enabling frameworks for Crossrail, having won our first project at Whitechapel and we are tendering, in joint venture, for the forthcoming major tunnelling and civil engineering work. Our activities in the nuclear market are ongoing at Sellafield, Aldermaston and Chapelcross and our 14th major Combined Cycle Gas Turbine (CCGT) power station at West Burton for EDF Energy (EDF) is progressing well. At our open cast coal mine at Greenburn, East Ayrshire, we have now extracted 3.8m tonnes of coal since we began production in 2004 and have recently been awarded planning consent on an adjacent site which increases our reserves and takes coal production to beyond 2016.

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

**Construction markets and outlook**
There is no doubt that cuts to public sector expenditure will have an impact on the construction market over the next few years. We have already witnessed the fall-out from the Building Schools for the Future programme, which has affected all contractors involved in the programme, although it has had little impact on Kier's order books. We await the October Spending Review to assess the impact across our other markets. However, Kier is in good shape; we enter the new financial year with a strong order book and a healthy pipeline of probable awards which, together, secure around 98% of our targeted revenues for 2011 and 45% of our target for 2012.

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

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

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

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

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

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

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

Some of our older contracts are now coming to an end and are set for renewal. It is vital to us that our track record of service delivery, our innovative partnership arrangements and the efficiency measures that we have put in place on these contracts are properly recognised in the renewal process. Therefore we were delighted to have been awarded two contracts at Islington, where we have been repairing and maintaining the Borough's housing stock since 2000 when we joined forces with Islington Borough Council in one of the first public/private partnerships of its kind in the country. These contracts are for Homes for Islington, the arm's length management organisation for Islington Council, valued at £20m per annum for four years, extendable for up to ten years.

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

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

Our Street Services division successfully completed the acquisition of Pure Recycling during the year, a business which is well advanced in developing an automated materials recycling plant located in Ettington, Warwickshire. This acquisition will enable us to compete for a broader range of waste collection and recycling contracts.

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

**Support Services markets and outlook**

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

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

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

**Partnership Homes**

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

**Partnership Homes business review**

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

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

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

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

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

The market for new homes remains fragile, largely as a consequence of a scarcity of mortgage finance, particularly for first-time buyers, coupled with uncertainty over job security. However, visitor levels have been steady over the last six months. We have been selling from a smaller number of sites over the past six months than in the previous six month period and, indeed, a lower number than we would like. Detailed planning restrictions and negotiations over Section 106 agreements, together with a slow start on some of our sites means that the number of our outlets will not increase meaningfully until the second half of the new financial year. We therefore expect overall sales for the year to 30 June 2011 to be second-half biased.

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

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

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

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

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

At Newcastle-under-Lyme we secured HCA funding for a housing development on one of our brownfield sites. Seventy two units are for social housing which have been forward-sold to Aspire Housing, a Registered Social Landlord (RSL), with eight units for private sale. Construction, by Kier Partnership Homes, began in February 2010 with completion expected in the summer of 2011. We continue to make good progress with Solum Regeneration, our joint venture with Network Rail. In April 2010 we secured planning permission at Epsom for a mixed scheme comprising a pre-let hotel, retail and housing on which Kier has now commenced construction. Seven other station sites are included in the joint venture, of which Walthamstow and Twickenham are expected to be the next developments to commence. The total development value of the current portfolio is expected to amount to around £400m with new sites being added to the joint venture; a testament to the strength of the partnership we have established with Network Rail.

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

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

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

Our portfolio of PFI projects following these disposals now totals 13 including the Gloucester Fire project now at preferred bidder stage. Our full equity investment in these schemes stands at £27.9m (2009: £28.0m) of which £16.0m has been invested to date. The directors' valuation of our investment of £27.9m at a discount rate of 7.5% is £49.1m.

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

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

Given our in-house skills we are well placed to take a leading role in working closely with local government and other bodies to tailor innovative property solutions to meet their requirements. The well publicised spending cutbacks will require new approaches to the provision of services by local councils and we are providing significant support to proposals which will help them maximise their asset values and achieve significant cost savings. The announcement of preferred bidder status with Chesterfield Borough Council to deliver property and engineering services in a 10-year partnership serves to endorse this approach. By building upon our work with Sheffield and Chesterfield Councils we have expanded our property development activities in the north of England working closely with Construction, Partnership Homes and Support Services to maximise opportunities for the Group.

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

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

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

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

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

**Markets and prospects**
The current economic climate will continue to pose challenges to our business over the next 12 months and the October Spending Review will, we hope, provide further clarity on public sector expenditure plans. Kier, with its established client relationships and financial strength, is well placed to attract construction work through its wide network of local offices and through the numerous frameworks in which we are involved in both the public and private sectors. We are encouraged by the prospects we see in markets such as power, utilities and waste. Our

construction order books of secure and probable contracts are robust, providing 98% of our targeted revenue for 2011, much of it won through framework agreements, providing confidence that we can sustain healthy operating margins and strong cash flows.

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

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

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

**Paul Sheffield**
Chief Executive

## Financial Review

### Accounting policies

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

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

### Underlying profit before tax and earnings per share

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

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

### Exceptional items

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

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

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

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

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

## Taxation

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

## Interest and cash

The net interest paid for the year comprises the following:

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

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

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

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

## Treasury policy and risk management

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

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

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

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

## Balance sheet and total equity

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

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

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

**Inventories**
An analysis of inventories is given below:

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

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

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

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

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

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

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

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

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

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

**Deena Mattar**
Finance Director

# Consolidated income statement
**for the year ended 30 June 2010**

| | Notes | 2010 Before exceptional items £m | 2010 Exceptional items* £m | 2010 Total £m | 2009 Before exceptional items £m | 2009 Exceptional items* £m | 2009 Total £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Group and share of joint ventures | 2 | **2,098.7** | **-** | **2,098.7** | 2,145.6 | - | 2,145.6 |
| Less share of joint ventures | | **(42.7)** | **-** | **(42.7)** | (33.7) | - | (33.7) |
| **Group revenue** | | **2,056.0** | **-** | **2,056.0** | 2,111.9 | - | 2,111.9 |
| Cost of sales | | **(1,847.0)** | **-** | **(1,847.0)** | (1,925.1) | (44.5) | (1,969.6) |
| **Gross profit** | | **209.0** | **-** | **209.0** | 186.8 | (44.5) | 142.3 |
| Administrative expenses | | **(151.2)** | **-** | **(151.2)** | (136.7) | (1.8) | (138.5) |
| Credits on retirement benefit obligations | | **-** | **16.0** | **16.0** | - | 24.3 | 24.3 |
| Provision for fine imposed by the Office of Fair Trading | | **-** | **(18.0)** | **(18.0)** | - | - | - |
| Share of post tax results of joint ventures | | **(1.3)** | **-** | **(1.3)** | - | (3.8) | (3.8) |
| Profit on disposal of joint venture | | **-** | **4.2** | **4.2** | - | - | - |
| **Profit from operations** | 2 | **56.5** | **2.2** | **58.7** | 50.1 | (25.8) | 24.3 |
| Finance income | | **3.1** | **-** | **3.1** | 5.3 | - | 5.3 |
| Finance cost | | **(4.1)** | **-** | **(4.1)** | (4.8) | - | (4.8) |
| **Profit before tax** | 2 | **55.5** | **2.2** | **57.7** | 50.6 | (25.8) | 24.8 |
| Income tax | 4a | **(12.3)** | **(4.9)** | **(17.2)** | (14.0) | 6.1 | (7.9) |
| **Profit for the year** | | **43.2** | **(2.7)** | **40.5** | 36.6 | (19.7) | 16.9 |
| **Attributable to:** | | | | | | | |
| Equity holders of the parent | | **42.4** | **(2.7)** | **39.7** | 35.8 | (19.7) | 16.1 |
| Minority interests | | **0.8** | **-** | **0.8** | 0.8 | - | 0.8 |
| | | **43.2** | **(2.7)** | **40.5** | 36.6 | (19.7) | 16.9 |
| **Earnings per share** | 6 | | | | | | |
| – basic | | **115.5p** | | **108.2p** | 98.1p | | 44.1p |
| – diluted | | **114.6p** | | **107.3p** | 97.8p | | 44.0p |
| **Adjusted earnings per share (excluding the amortisation of intangible assets)** | 6 | | | | | | |
| – basic | | **121.3p** | | | 102.5p | | |
| – diluted | | **120.3p** | | | 102.2p | | |

*Exceptional items relate to provision for a fine imposed by the Office of Fair Trading, profit on disposals of joint ventures, land and work in progress write-downs, restructuring costs and pensions curtailment and past service credits (note 3).

## Consolidated statement of comprehensive income
**for the year ended 30 June 2010**

| | Notes | 2010 £m | 2009 £m |
|---|---|---|---|
| **Profit for the year** | | **40.5** | 16.9 |
| **Other comprehensive income/(loss)** | | | |
| Foreign exchange translation differences | | **-** | 0.1 |
| Share of joint venture recycling of cash flow hedge movements | | **2.2** | - |
| Share of joint venture fair value movements in cash flow hedging instruments | | **(5.1)** | (15.3) |
| Fair value movements in Group cash flow hedging instruments | | **0.9** | (1.9) |
| Actuarial losses on defined benefit pension schemes | | **(10.2)** | (103.2) |
| Other comprehensive loss before taxation | | **(12.2)** | (120.3) |
| **Deferred tax on items recognised directly in equity** | | | |
| Share of joint venture cash flow hedging instruments | | **0.8** | 4.2 |
| Group cash flow hedging instruments | | **(0.3)** | 0.6 |
| Actuarial losses on defined benefit pension schemes | | **2.9** | 28.9 |
| Taxation credit on other comprehensive loss | 4b | **3.4** | 33.7 |
| **Other comprehensive loss for the year** | | **(8.8)** | (86.6) |
| **Total comprehensive income/(loss) for the year** | | **31.7** | (69.7) |
| **Attributable to:** | | | |
| Equity holders of the parent | | **30.9** | (70.5) |
| Minority interests | | **0.8** | 0.8 |
| | | **31.7** | (69.7) |

## Consolidated statement of changes in equity
**for the year ended 30 June 2010**

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

# Consolidated balance sheet
**at 30 June 2010**

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

# Consolidated cash flow statement
**for the year ended 30 June 2010**

| | Notes | 2010 £m | 2009 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **57.7** | **24.8** |
| Non cash exceptional items | | | |
| Credits on retirement benefit obligations | | **(16.0)** | (24.3) |
| Provision for fine imposed by the Office of Fair Trading | | **18.0** | - |
| Profit on disposal of joint venture | | **(4.2)** | - |
| Restructuring costs | | **-** | 1.8 |
| Land and work in progress write-downs | | **-** | 48.3 |
| Other adjustments | | | |
| Share of post tax trading results of joint ventures | | **1.3** | - |
| Normal contributions to pension fund in excess of pension charge | | **(0.5)** | (2.9) |
| Equity settled share-based payments charge/(credit) | | **1.4** | (0.9) |
| Amortisation and impairment of intangible assets | | **6.8** | 2.2 |
| Depreciation charges | | **14.7** | 14.6 |
| Profit on disposal of property, plant & equipment | | **(0.7)** | (1.3) |
| Net finance expense/(income) | | **1.0** | (0.5) |
| **Operating cash flows before movements in working capital** | | **79.5** | **61.8** |
| Special contributions to pension fund | | **(21.2)** | **(8.0)** |
| Payment of restructuring costs | | **(1.2)** | **(8.3)** |
| Decrease in inventories | | **17.8** | **51.4** |
| Decrease in receivables | | **1.0** | **33.8** |
| Increase/(decrease) in payables | | **30.1** | **(133.5)** |
| Increase in provisions | | **5.4** | **10.3** |
| **Cash inflow from operating activities** | | **111.4** | **7.5** |
| Dividends received from joint ventures | | **0.8** | **0.4** |
| Interest received | | **3.9** | **4.8** |
| Income taxes paid | | **(1.1)** | **(7.4)** |
| **Net cash generated from operating activities** | | **115.0** | **5.3** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant & equipment | | **2.2** | **4.4** |
| Proceeds from sale of joint venture | 8b | **7.3** | **-** |
| Purchases of property, plant & equipment | | **(11.0)** | **(15.3)** |
| Purchase of intangible assets | | **(1.4)** | **-** |
| Acquisition of subsidiaries | 8a | **(8.1)** | **(14.0)** |
| Net investment in joint ventures | | **(0.6)** | **(9.0)** |
| **Net cash used in investing activities** | | **(11.6)** | **(33.9)** |
| **Cash flows from financing activities** | | | |
| Purchase of own shares | | **-** | **(0.8)** |
| Interest paid | | **(2.4)** | **(2.5)** |
| Dividends paid to equity holders of the parent | | **(17.7)** | **(18.4)** |
| Dividends paid to minority interests | | **(0.5)** | **(1.1)** |
| **Net cash used in financing activities** | | **(20.6)** | **(22.8)** |
| Increase/(decrease) in cash and cash equivalents | | **82.8** | **(51.4)** |
| Opening cash and cash equivalents | | **122.7** | **174.1** |
| **Closing cash and cash equivalents** | | **205.5** | **122.7** |
| **Reconciliation of net cash flow to movement in net funds** | | | |
| Increase/(decrease) in cash and cash equivalents | | **82.8** | **(51.4)** |
| Increase in long-term borrowings | | **(0.1)** | **-** |
| Opening net funds | | **92.5** | **143.9** |
| Closing net funds | | **175.2** | **92.5** |
| **Net funds consist of:** | | | |
| Cash and cash equivalents | | **205.5** | **122.7** |
| Long-term borrowings | | **(30.3)** | **(30.2)** |
| **Net funds** | | **175.2** | **92.5** |

# Notes to the consolidated financial statements

### 1. Accounting policies

The adoption of IFRIC 12 'Service concession arrangements' on 1 July 2009 has resulted in a reduction in the investment in joint ventures and in retained earnings of £3.2m at this date. The impact of the adoption of IFRIC 12 at 30 June 2008 was also a reduction in the investment in joint ventures and in retained earnings of £3.2m, and as a consequence the income statement for the year ended 30 June 2009 has not been impacted. The prior period balance sheet at 30 June 2009 has been restated accordingly.

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

Other than the adoption of IFRIC 12 there have been no significant changes to the accounting policies in these financial statements. They have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

### 2 Revenue, profit and segmental reporting

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

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

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

[1]Revenue is stated after the exclusion of inter-segmental revenue
[2]Interest was (charged)/credited to the divisions at a notional rate of 4.5% and 4.0%

# Notes to the consolidated financial statements continued

## 2 Revenue, profit and segmental reporting continued

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

[1]The balance sheet has been restated to reflect the adoption of IFRIC 12 which reduced net assets by £3.2m
[2]Revenue is stated after the exclusion of inter-segmental revenue
[3]Interest was (charged)/credited to the divisions at a notional rate of 6.0% and 5.5%

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

## 3. Exceptional items

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

# Notes to the consolidated financial statements continued

### 3. Exceptional items continued

The pension credits arose:
In the current year a gain of £16.0m arose in the pension scheme in which the employees of Kier Sheffield LLP participate. This arose as a consequence of changes announced in the budget in June 2010 requiring public sector pension schemes to use the Consumer Prices Index (CPI) in place of the Retail Prices Index (RPI) to determine future pension increases.
During the prior year a credit of £24.3m arose in the Kier Group Pension Scheme as a consequence of the Board's decision to restrict pensionable salary increases to the lower of actual pay increases and the annual rate of increase in RPI.

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

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

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

### 4. Income tax

a) Recognised in the income statement

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

b) Recognised in the statement of comprehensive income

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

# Notes to the consolidated financial statements continued

## 4. Income tax continued

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

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

## 5. Dividends

Amounts recognised as distributions to equity holders in the year.

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

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

## 6. Earnings per share

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

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

# Notes to the consolidated financial statements continued

### 7. Retirement benefit obligations

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

| | 2010 £m | 2009 £m |
|---|---|---|
| **Kier Group Pension Scheme** | | |
| Opening deficit | **(96.1)** | (45.7) |
| Charge to operating profit | **(9.1)** | (8.4) |
| Credit on benefit curtailment | **-** | 24.3 |
| Employer contributions | **32.5** | 20.2 |
| Actuarial losses | **(5.9)** | (86.5) |
| Closing deficit | **(78.6)** | (96.1) |
| Comprising | | |
| Total market value of assets | **611.2** | 498.4 |
| Present value of liabilities | **(689.8)** | (594.5) |
| Deficit | **(78.6)** | (96.1) |
| Related deferred tax asset | **22.0** | 26.9 |
| Net pension liability | **(56.6)** | (69.2) |

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

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

| | 2010 £m | 2009 £m |
|---|---|---|
| **Kier Sheffield LLP** | | |
| Opening deficit | **(18.6)** | (1.0) |
| Charge to operating profit | **(2.8)** | (2.0) |
| Past service credit | **16.0** | - |
| Employer contributions | **1.1** | 1.1 |
| Actuarial losses | **(4.3)** | (16.7) |
| Closing deficit | **(8.6)** | (18.6) |
| Comprising | | |
| Total market value of assets | **135.1** | 116.1 |
| Present value of liabilities | **(143.7)** | (134.7) |
| Deficit | **(8.6)** | (18.6) |
| Related deferred tax asset | **2.4** | 5.2 |
| Net pension liability | **(6.2)** | (13.4) |

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

# Notes to the consolidated financial statements continued

## 8. Summary of acquisitions

| a) Summary of consideration paid for acquisitions during the year | 2010 £m | 2009 £m |
|---|---|---|
| Construction and building services operations of: | | |
| North Tyneside Council | **3.4** | - |
| Sheffield City Council | **-** | 1.4 |
| Kent LEP | **2.2** | - |
| Pure Recycling | **2.0** | - |
| Hugh Bourn Developments (Wragby) Limited | **0.5** | 12.6 |
| Total | **8.1** | 14.0 |

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

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

The consideration is payable as follows:

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

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

Acquisition of investment in Kent LEP

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

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

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

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

Acquisition of investment in Pure Recycling

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

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

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

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

# Notes to the consolidated financial statements continued

**8. Acquisitions and disposals** continued

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

The consideration was payable as follows:

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

b) Disposal of investments in joint ventures

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

The disposal proceeds can be reconciled to the profit on disposal of £4.2m as follows:

| | £m |
|---|---|
| Sales proceeds | 7.3 |
| Book value of net assets and loans of joint ventures | (2.9) |
| Sale costs and loan interest receivable included in sales proceeds | (0.2) |
| Profit on disposal | 4.2 |

**9. Statutory accounts**

The information set out above does not constitute statutory accounts for the year ended 30 June 2010 or 2009 but is derived from those accounts.

Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered following the Company's annual general meeting and will be made available on the Company's website, www.kier.co.uk. The accounts have been prepared on a going concern basis which the directors consider appropriate. The auditors have reported on the 2009 and 2010 accounts, their reports were unqualified and did not contain statements under section 498 (1) or (2) of the Companies Act 2006.