KIER

INTEGRATED EXCELLENCE
INDIVIDUAL FLAIR

KIER GROUP PLC
ANNUAL REPORT AND ACCOUNTS 2009

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www.kier.co.uk

Investor relations
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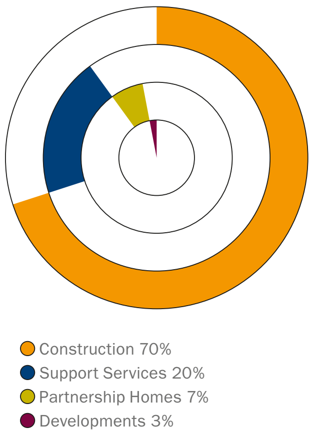
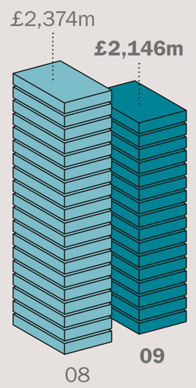
GROUP HIGHLIGHTS

Kier Group plc is a leading construction, development and services group specialising in building and civil engineering, support services, private and affordable residential development, commercial property development and infrastructure project investment. The Group employs 11,400 people worldwide and has annual revenue of £2.1bn.

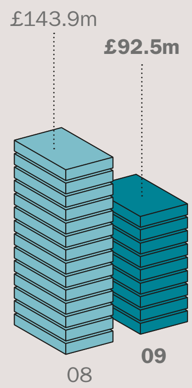
Revenue by division (%)



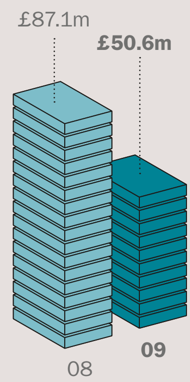
Revenue



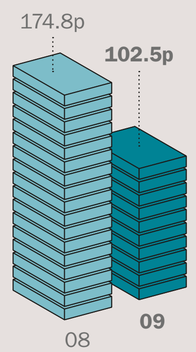
Net cash balances



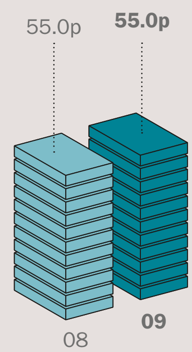
Profit before tax
(before exceptional items)



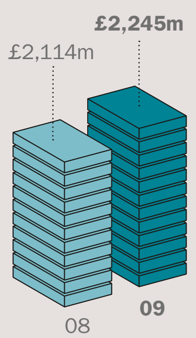
Earnings per share
(before the amortisation of intangible assets and exceptional items)



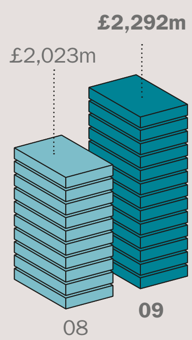
Dividend per share



Construction secured and probable order books



Support Services order books



KIER AT A GLANCE

STRATEGIC ALLIANCES AND FRAMEWORKS

KIER HEALTH

Total value of awards
£75.9m

% delivered through frameworks
71.4%

- NHS ProCure 21

KIER EDUCATION

Total value of awards
£598.4m

% delivered through frameworks
65.6%

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

KIER CUSTODIAL

Total value of awards
£45.1m

% delivered through frameworks
100.0%

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

KIER RETAIL

Total value of awards
£63.1m

% delivered through frameworks
93.7%

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

KIER AIRPORTS

Total value of awards
£31.9m

% delivered through frameworks
96.0%

- BAA Plc Commodity Build Framework
- One of five contractors for £650m framework over five years at airports in the UK
- Bristol International Airport

KIER RAIL

Total value of awards
£47.6m

% delivered through frameworks
36.0%

- Network Rail Infrastructure Upgrades East Anglian Region
- Five-year rail infrastructure renewal programme

KIER WATER

Total value of awards
£75.0m

% delivered through frameworks
100.0%

- United Utilities - Integrated Alliance North
- KMI Plus joint venture including Kier Construction
- Five-year programme of work

KIER SUPPORT SERVICES

The Support Services division, through Kier Building Maintenance, Kier Street Services and Kier Facilities Services, has an extensive portfolio of local authority partnerships and clients.

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KIER PARTNERSHIP HOMES

Kier Partnership Homes is involved in many housing association and registered social landlords' partnerships and frameworks.

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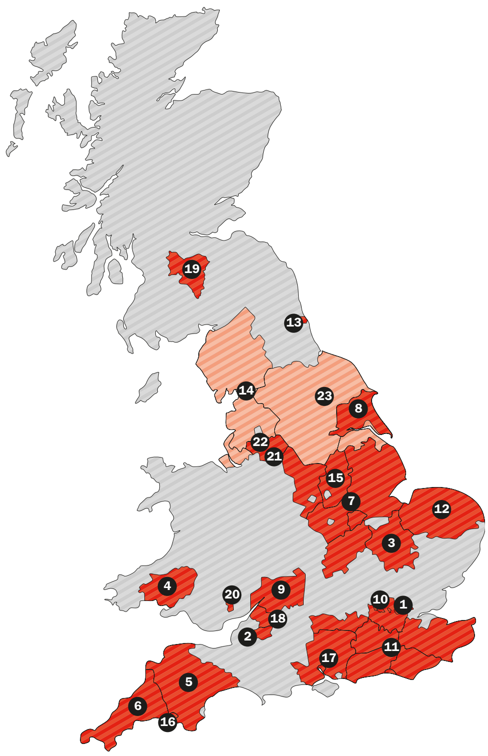
KIER REGIONAL LOCAL AUTHORITY FRAMEWORKS

1 Barking & Dagenham
2 Bath & North Somerset Council
3 Cambridgeshire County Council
4 Carmarthenshire Council
5 Construction Framework South West (Devon County Council)
6 Cornwall County Council
7 East Midlands Property Alliance (EMPA) including:
Nottinghamshire
Derbyshire
Leicestershire
Northamptonshire
Rutland
Lincolnshire
8 East Riding of Yorkshire Council
9 Gloucestershire County Council
10 Harrow Council
11 Improvement & Efficiency South East (IESE) including:
Berkshire
Hampshire
Surrey
East & West Sussex
Kent
London Borough of Brent
London Borough of Islington
London Borough of Newham
London Metropolitan Police
12 Norfolk County Council
13 North Tyneside Council
14 North West Construction Hub
Liverpool
Greater Manchester
Wigan
Bolton
St Helens
Lancashire
Cumbria
15 Nottinghamshire County Council
16 Plymouth City Council
17 Southampton City Council
18 South Gloucestershire Council
19 South Lanarkshire Council
20 Torfaen Council
21 Metropolitan Borough of Trafford
22 Metropolitan Borough of Wigan
23 YorBuild
Humberside
Yorkshire

Local Authority Framework contracts
Local Authority Framework contracts under bid



OPERATIONAL HIGHLIGHTS

CONSTRUCTION

- Kier Regional
- Kier Construction

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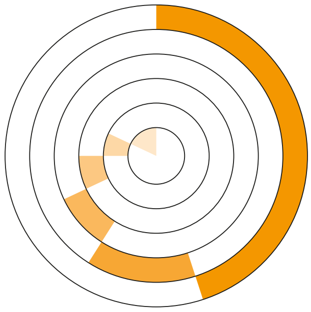
Revenue
£1,492m
(2008: £1,585m)

Operating profit
£39.1m
(2008: £36.6m)

www.kier.co.uk/construction

Contract awards by sector (%)
- Education 45%
- Energy 14%
- Health 9%
- Commercial 7%
- Utilities 7%
- Other 18%



SUPPORT SERVICES

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

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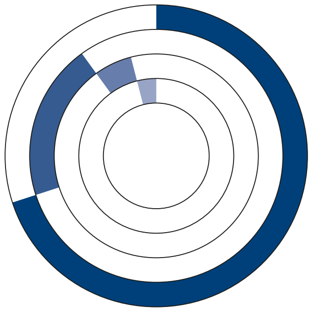
Revenue
£438m
(2008: £394m)

Operating profit
(before amortisation of intangible assets)
£17.9m
(2008: £16.2m)

www.kier.co.uk/supportservices

Business revenue (%)
- Building Maintenance 70%
- Facilities Services 20%
- Plant 6%
- Street Services 4%



PARTNERSHIP HOMES

- Kier Partnership Homes

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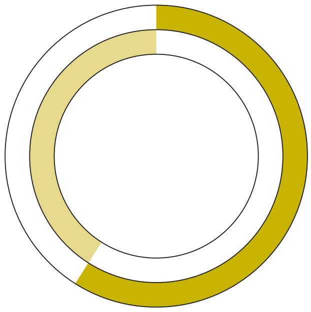
Revenue
£151m
(2008: £312m)

Operating profit
(before exceptional items)
£1.1m
(2008: £32.2m)

www.kier.co.uk/partnershiphomes

Unit sales (%)*
- Social sales 59%
- Private sales 41%

*Total unit sales 1,141



DEVELOPMENTS

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

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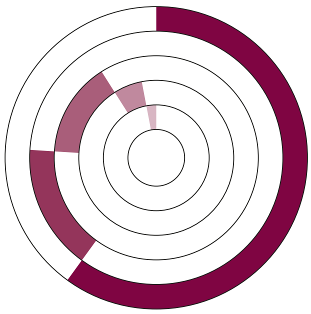
Revenue
£65m
(2008: £85m)

Operating profit/(loss)
(before exceptional items)
£(1.9m)
(2008: £11.7m)

www.kier.co.uk/developments

Portfolio of PFI projects (%)*
- Education 60%
- Police facilities 16%
- Health 15%
- Libraries 6%
- Other 3%

*Portfolio of 14 PFI projects with a committed equity investment of £28.0m



CHAIRMAN'S STATEMENT

Against a backdrop of a very challenging economic climate, particularly in UK property developments and housing markets, I am pleased to report good results for Kier Group plc for the year to 30 June 2009.

Phil White Chairman

Underlying profits before tax, the amortisation of intangible assets and exceptional items were ahead of expectations at £52.8m (2008: £89.2m); and underlying earnings per share on the same basis were 102.5p (2008: 174.8p). Overall we recorded only a modest reduction in revenue to £2,145.6m (2008: £2,374.2m), despite fairly sizeable volume reductions in our Partnership Homes and Developments businesses.

Our Construction and Support Services divisions achieved record levels of operating profit and strong cash balances. Combined order books of £4.5bn (2008: £4.1bn) for both divisions reflect the award of several new framework agreements and large contracts including, in Support Services, the £600m building maintenance contract for North Tyneside Council.

Considerable effort has been put into completing the reorganisation of our housing business during the year which, in total, has provided annualised cost savings of around £26m. While beginning to show recent signs of stabilisation, the market for the newly formed Kier Partnership Homes division continued to be tough throughout the financial year with 1,141 unit sales achieved compared with 2,090 last year, 59% of which were social units (2008: 43%). We generated a small underlying operating profit in the Partnership Homes division before taking into account further land write-downs and reorganisation costs, together totalling £44.3m.

In our Developments business volumes reduced due to the lack of funds available in the market for potential purchasers. However we have advanced a number of long-term opportunities including our joint venture with Network Rail. We also completed the purchase of a majority stake in the Kent Building Schools for the Future (BSF) Local Education Partnership which gives us access to a further £300m of schools construction work, in due course, as well as access to further Private Finance Initiative (PFI) investment and a facilities management contract. More recently we have exchanged contracts for the disposal of the UK Supreme Court for over £30m.

Cash, one of our key measures particularly within the Construction division, continues to be strong at a net balance of £92.5m at 30 June 2009 (2008: £143.9m). The outflow for the year is attributable to committed land payments in our Partnership Homes business and to further investment in the UK Supreme Court development in our Developments business which now is complete and in the process of disposal.

The Board is pleased to announce that it is proposing to maintain the total dividend for the year at 55.0p, the same level as last year's dividend. The dividend is 1.9 times covered by adjusted earnings per share. The final dividend of 37p will be paid on 27 November 2009 to shareholders on the register on 25 September 2009 and there will be a scrip dividend alternative. Maintaining the dividend in this difficult economic climate has been an important objective for the Board and we look forward to returning to a progressive dividend policy as economic conditions improve.

Board changes

The Board was pleased to announce the appointment of Nick Winser as a non-executive director of the Company with effect from 1 March 2009. Nick, aged 49, is an executive director of National Grid plc.

Net cash
(at 30 June 2009)

£92.5m
(2008: £143.9m)

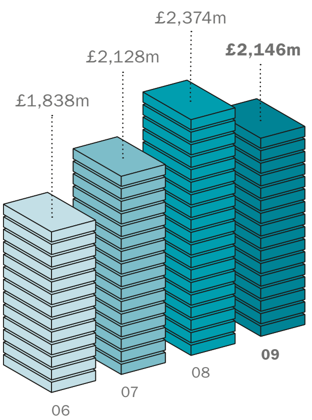
Construction and Support Services order books

£4.5bn
(2008: £4.1bn)

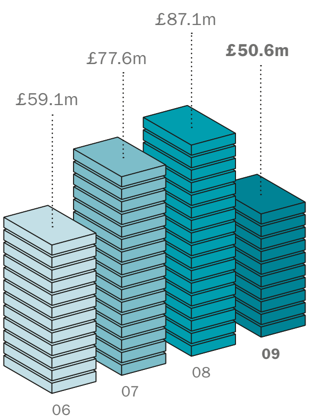
1 Lexden Viaduct, nr Colchester
Kier Construction
Graham Banks, site supervisor (left) with the brickwork contractor inspecting repair works to the underside of the arches. The project is part of the Network Rail framework, East Anglian Region.

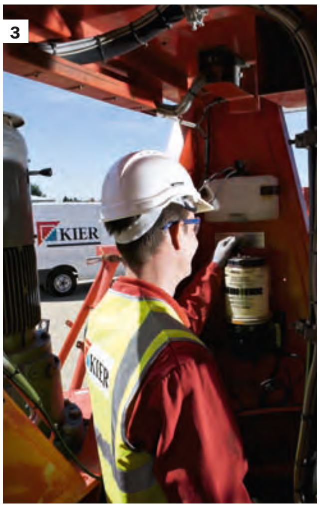
2 Old Royal Infirmary, Kier North West
Alan Blair is polishing parquet flooring at Liverpool University's Old Royal Infirmary refurbishment project. Due to complete in October 2009, this £5.4m project includes the internal and external refurbishment of the existing Grade II listed building, forming new laboratories and research and teaching areas for the Medical Faculty at the University.

Revenue



Profit before tax
(before exceptional items)





3 Kier Plant depot in Setchey
Kier Plant electrician *Mark Futter* in the process of rigging tower cranes.

Prospects

Our Construction and Support Services businesses are performing well with some strong opportunities identified and secured in both the public and private sectors supported by the significant number of framework agreements with which we are involved. We expect to maintain a healthy margin and cash position in both of these divisions.

The newly restructured Partnership Homes division is now better able to respond to the current market conditions with an emphasis on social housing provision within a mixed tenure context whilst continuing to develop out or seek disposal opportunities for the 6,150 plots of land with residential planning consent which we hold across our operational areas.

Whilst the current markets for our Developments business remain tough, they are beginning to show signs of improvement and we have a number of excellent long-term projects which will provide considerable value for the future.

The new financial year has started well. The current economic climate will, no doubt, present us with many challenges; however, our businesses are financially strong. We have a strong balance sheet and good cash resources and I am confident that Kier will respond positively to changing markets as we enter the new financial year.

Phil White
Chairman

CHIEF EXECUTIVE'S REVIEW

The good performance for the year is the result of our product diversification and spread of operations, the quality and commercial capability of our staff as well as our approach to risk management. The Group continues to be cash-positive with healthy order books in our Construction and Support Services businesses supported by framework agreements and public sector opportunities.

John Dodds Chief Executive

Overview

I am pleased to report that Kier Group plc has performed ahead of expectations in the year to 30 June 2009 and has maintained strong levels of revenue, underlying profits and cash.

Our Construction division has had a strong year achieving further growth in operating profits at record margins of 2.6% (2008: 2.3%) together with healthy average cash balances. We continue to focus on long-term relationships and have successfully extended the number of long-term public and private sector framework agreements in which we participate to 52 across the country. Public sector projects, particularly in the education sector, continue to underpin our order books representing 56% of our contract awards for the year, with private sector enquiry levels holding up in many sectors. The infrastructure, power and energy sectors are providing significant opportunities in the UK, and overseas we are seeing improved prospects for work arising from the Middle East and Hong Kong.

In Support Services our order books have grown significantly, particularly with the recent award of the contract with North Tyneside Council to repair and maintain around 16,000 social housing units together with other council-owned property. We are also seeing an increase in the number of outsourcing opportunities for both the public and private sectors as organisations continue to examine their cost base and seek efficiencies.

Our Partnership Homes division, which now encompasses the former Kier Homes, our private housing business, and Kier Partnership Homes, our social housing contracting business, performed in line with our expectations. Despite weak buyer sentiment and a continued lack of liquidity in the mortgage and general lending market, the division completed 1,141 unit sales for the year (2008: 2,090) and generated an underlying operating profit of £1.1m (2008: £32.2m). Our Developments business saw modest sales activity this year although we have been active on a number of projects and long-term opportunities.

More recently our Developments business has acquired a majority stake in a BSF programme for Kent County Council. This acquisition secures our position on the Local Education Partnership board giving us access to a further £16m of PFI investment in education projects together with at least £300m of additional construction work for our regional contracting businesses as well as a 25-year facilities management contract for Kier Support Services. We have also, recently, exchanged contracts for the disposal of the UK Supreme Court for over £30m which provides an exit yield of around 5% based on post-tax disposal proceeds. Completion is expected imminently.

Financial performance

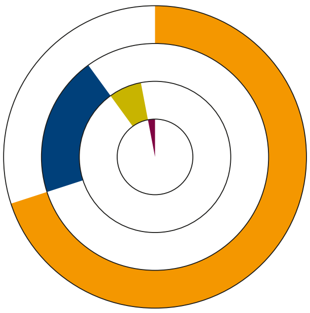
Revenue for the year was £2,145.6m, (2008: £2,374.2m) with good growth in Support Services offset, as expected, by a reduction in each of the Partnership Homes and Developments divisions. The Construction division saw a mild reduction in revenue largely as a result of a decline in private sector projects. Underlying operating profit for the Group was 40% less than last year's at £50.1m (2008: £83.8m), the decline attributable to our Partnership Homes and Developments divisions offsetting significant growth in Construction and Support Services.

Revenue

£2,146m

(2008: £2,374m)

Revenue by division (%)



Construction 70%
Support Services 20%
Partnership Homes 7%
Developments 3%

1 GMAC headquarters, Bracknell
Kier Facilities Services
Welder *James Mayhew* worked on the GMAC headquarters Bracknell site. The 110,000sq ft building incorporates a cutting-edge direct cooling system for the data servers and a 6,300 amp busbar system with a line voltage rating of 400 volts.

2 University of East Anglia, Central Square redevelopment, Kier Eastern
General operative *Craig Newman* and the rest of the Kier Eastern project team carried out works for the University of East Anglia to create a six-storey library link to the existing Grade II listed building over a 45-week period. The Central Square redevelopment also included the refurbishment of the existing library with sectional completions for each floor level, stairs and toilets, over a 50-week period.

Exceptional items before tax amounted to a charge of £27.3m (2008: £24.6m) analysed as follows:

	£m
Pension credit arising from changes to the salary-related section of the Kier Group Pension Scheme	24.3
Redundancy and reorganisation costs associated with our Partnership Homes division	(1.8)
Provisions against land and work in progress	
Partnership Homes	(42.5)
Developments	(7.3)
Total exceptional items	(27.3)

Underlying profit before tax for the year was £50.6m (2008: £87.1m) after amortisation of intangible assets, joint venture tax and before exceptional items and on the same basis adjusted earnings per share were 98.1p (2008: 170.6p).

Cash remains strong with month-end net balances in the year averaging £62m, ending the year at a net balance of £92.5m (2008: £143.9m). Healthy cash balances have been maintained in the Construction division which averaged £390m for the year, together with the Support Services division which averaged £20m. Within our Partnership Homes division we experienced a cash outflow, as predicted, of £22.3m largely due to land payment commitments and the high levels of work in progress built up prior to the commencement of the 2009 financial year. This, coupled with our investment in the UK Supreme Court development and our equity investment in PFI and property joint ventures, led to an outflow of Group cash of £51m during the year.

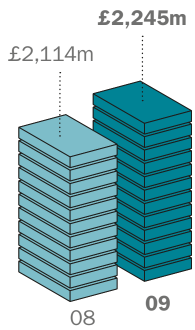
Group structure and strategic developments

For the year to 30 June 2009 Kier Group plc comprised four divisions: Construction, Support Services, Partnership Homes and Developments. The Group's management structure and segmental analysis for reporting purposes are based on the four divisions.

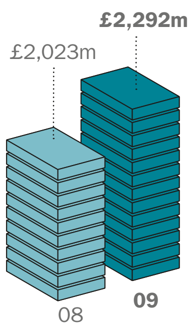
During the year we successfully completed the merger of the former Kier Homes, our private housing development business, together with Kier Partnership Homes, our social housing contracting business, to form the enlarged Kier Partnership Homes division. This merger has combined the skills and relationships of the social housing management team with the land skills and marketing techniques of our private development team in order to focus on large-scale regeneration projects, to participate in housing PFI schemes, and to respond to the Homes and Community Agency's (HCA's) affordable housing strategy. Indeed, Kier Partnership Homes enjoys 'Partner Status' with the HCA and is able to apply for and receive grant directly.

The new division is better able to respond to the current market conditions with an emphasis on social housing provision within a mixed tenure context whilst continuing to develop out or seek disposal opportunities for the 6,150 plots of land with residential planning consent which we hold across our operational areas. With the change in emphasis towards providing an increasing number of social housing units, whilst retaining our private land development and marketing skills, Kier Partnership Homes will benefit from a reduced risk profile. The new business model requires less working capital than the previous model, arising from a higher proportion of social housing units developed on third-party land and, consequently, a higher return on capital employed.

Construction secured and probable order books



Support Services order books



KIER CONSTRUCTION

West Burton power station

Kier Construction was awarded a contract valued at £100m to provide civil engineering works for a 1,200MW combined cycle gas turbine (CCGT) power station at West Burton in Nottinghamshire on behalf of EDF Energy.

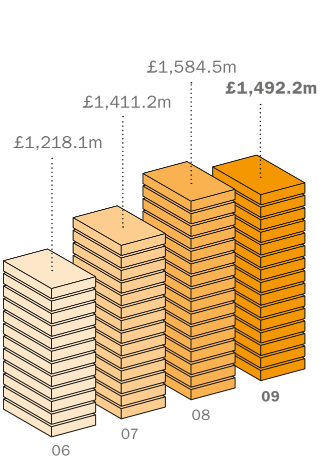
CONSTRUCTION

We enter the new financial year with strong order books and a healthy pipeline of 'probable' awards which, together, secure around 93% of our targeted revenues for 2010 and around half of our target for 2011.

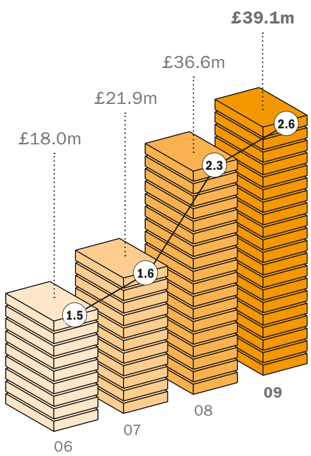
www.kier.co.uk/construction

- Frameworks – 52 in total including public and private sector clients
- Order books are strong with good visibility to 2011
- Cash generation continues
- Energy and power sectors provide significant opportunity in power station investment
- Group purchase into Kent BSF secures £300m of education projects
- Overseas opportunities

Revenue

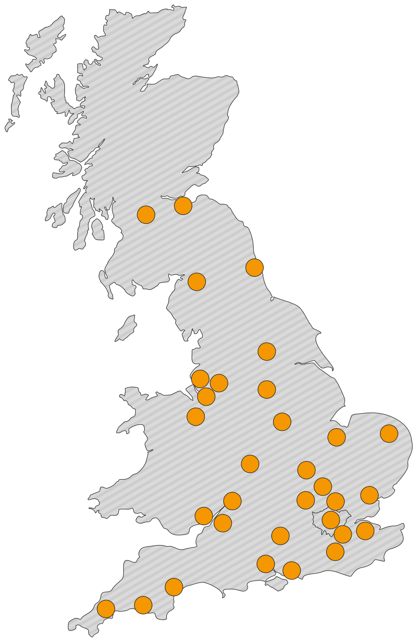


Operating profit
Operating margin %



Regional network

Our 32 offices across the UK give the businesses strong integration into local communities, client base and supply chain.



Pinnacle MK, Kier Marriott & Kier Build
This project in Milton Keynes is for developers Hampton Brook. The 250,000sq ft scheme, undertaken on a design & build basis, is being built to meet the Building Research Establishment's BREEAM 'Excellent' rating in energy efficiency.

Westminster Kingsway College, Kier London
Westminster Kingsway College is a two-stage £35m design & build contract for the provision of a new campus building on one of the current college sites.

Foundation Park, Kier Moss
As part of a £6.5m phased redevelopment, Kier Moss transformed units 7 and 8 of Foundation Park, Maidenhead. The contract included a comprehensive refurbishment and extension to the existing buildings, now occupied by client FREP (Maidenhead) Ltd, and achieved a BREEAM 'Very Good' rating.

Whitmore High School, Harrow
Kier Southern
Site engineer *Jas Dhaliwal* working for Kier Southern on behalf of Kier Harrow Projects which is carrying out a £40m design & build project at Whitmore High School in Harrow. The project is now well under way and completion is due in 2010.

CONSTRUCTION
CONTINUED

The Construction division comprises Kier Regional and Kier Construction. Kier Regional encompasses our network of 11 regional contracting businesses, mainly focused on building projects operating across the whole of the UK. Kier Construction represents the Group's infrastructure and overseas operations which include civil engineering in the power, waste and nuclear sectors, infrastructure, rail and mining.

Overall revenue remained fairly flat at £1,492.2m (2008: £1,584.5m), whilst operating profit grew from £36.6m to a record £39.1m, at a margin of 2.6% (2008: 2.3%). Cash generation has been good with cash balances at 30 June 2009 in line with those last year at around £400m after deducting tax and intra-group dividends. Contract award levels were marginally lower than those for last year giving a secured order book of £1,190m (2008: £1,357m) (comprising only the value of projects with a signed contract) but with a higher level of 'probable' awards (comprising contracts on which we are preferred bidder or in one-to-one negotiations); £1,055m compared with £757m last year.

Fifty-six per cent of our awards were for public sector projects, with education, by far, our biggest source of work accounting for some £600m (45%) of our total awards for the year, much of it generated through framework agreements and partnerships with government, local authorities and universities. The Contractors' Framework for Academies has awarded us six projects so far with a combined value of £139m as well as a further six projects on which we are preferred bidder valued at an additional £272m.

We are active in the BSF market and our role on the Kent County Council BSF has started to deliver with £108m already awarded and a further £300m anticipated to come on-stream in due course.

Frameworks for local authorities are also delivering a high volume of work, particularly in schools. We were selected as one of three contractors to form the East Midlands Property Alliance (EMPA) Intermediate Projects Partnering Framework valued at £275m over four years, as well as being selected as preferred bidder on a £400m Construction Framework in the south-west over a similar period, neither of which is currently included in our secure or probable awards.

Health projects represented 9% of our awards in the year. The seven-year ProCure 21 (P21) framework is in its sixth year and is producing a steady flow of work. In the last 12 months Kier Health has won a further 20 projects at a combined value of £65m taking our total awards on the framework to nearly £400m.

New construction, extensions and refurbishment work at prisons for the Ministry of Justice Custodial Properties' Framework has again provided a good level of activity representing around 3% of total awards in the year. At the end of the year we were selected for the £180m Featherstone Prison contract near Wolverhampton to provide three 480-place house blocks and additional associated facilities.

In the private sector we have been awarded a number of projects under the new BAA framework and are active at Edinburgh, Heathrow, Gatwick and Stansted airports. Other private sector contracts include projects under frameworks for Tesco and Sainsbury's including two ground-breaking Sainsbury's eco stores in Dartmouth and Gloucester Quays. Other important framework clients for whom we work include SEGRO, Goodman, British Land, Hermes, Morrisons and Vodafone.

The energy sector accounted for 14% of our awards in the year including the £100m contract at West Burton, Nottingham where we are providing civil engineering works for a 1,200MW Combined Cycle Gas Turbine (CCGT) power station for EDF Energy. As the leading provider of power station infrastructure for CCGT power stations, having completed 13 such stations in a similar number of years, we are well placed to take advantage of the necessary future growth in this sector. We are preferred bidder with VT on a waste treatment plant at Wakefield and are exploring a number of opportunities in the nuclear sector, building on our

Construction cash balances
(at 30 June 2009)

£400m
(2008: £410m)

Construction contract awards

56% Public sector

44% Private sector

(2008: 49% Public, 51% Private)

1 Great North Museum, Kier Northern
Left to right: *Neil Hosie*, senior quantity surveyor and *Mark Meakin*, assistant quantity surveyor. Mindful of the Great North Museum's Grade II listed status, Kier Northern used building materials in keeping with its 19th century roots, including lime and horsehair in the plaster and pure lead tiling on the roof.

2 Edinburgh Airport, Kier Scotland
Kier Airports has completed its first project at Edinburgh Airport as part of the BAA framework. This is a £10m contract to provide a new car hire centre. The Consolidated Car Rental Centre (CCRC), built by Kier Scotland, is one of the first BAA framework projects awarded to Kier since its recognition as a framework partner.

3 GKN Aerospace, Kier Western
Site agent *Ashley Back*. Kier Western's £14m project for client GKN Aerospace involves the development of a new wing assembly plant for the A350 XWB passenger airliner.

4 Open Academy, Norwich, Kier Eastern
When completed the Open Academy in Norwich will be the largest building of its type in the UK and will have the lowest embodied energy of any academy yet constructed. The building features cross-laminated timber panel construction. Approximately 2,325 tonnes of CO_2 will be stored in the timber frame. It has been calculated that the entire building will remain carbon negative for almost 20 years.

27 years of experience at Sellafield and Aldermaston. We have recently secured a position on the AWE Civil Framework to deliver projects at Aldermaston and Burghfield over a five-year period. At our open cast coal mine at Greenburn, East Ayrshire, we have now extracted 3.3m tonnes of coal since we began production in 2004 and are exploring further opportunities on adjacent sites which could increase our reserves significantly taking coal production to beyond 2016.

In the water sector, as part of a joint venture, we were awarded a £250m contract extension to our framework with United Utilities to 2015. In rail, as well as the five-year structures maintenance contract on which we are working for Network Rail in the East Anglia region, we were awarded the King's Cross roof refurbishment contract for £27m. We have also been successful in gaining entry onto the civil engineering and demolition enabling frameworks for Crossrail.

Overseas our markets have been mixed. Our operations in Dubai have continued to slow as funding became tighter. Fortunately the majority of our work is in government-funded infrastructure and drainage projects and, whilst payment terms have lengthened, cash receipts have continued to flow. We have now turned our attention to other areas in the Middle East including Saudi Arabia, where we are setting up an eight-year phosphate mining contract in joint venture with a local partner. Further opportunities are being pursued in Saudi Arabia and Abu Dhabi.

In Romania we have successfully completed a large retail centre on time and to budget, together with the first phase of an apartment scheme. However our operations have been hampered by the economic downturn and the lack of financing for projects and we have decided to withdraw from the region after ten successful years.

In the Caribbean we were successful in securing a £40m new hospital in Portmore on the outskirts of Kingston, Jamaica for the Cardiovascular Hospitals of America as part of the first phase of what could be a major development with opportunities for further work on the scheme.

CONSTRUCTION
CONTINUED

1

1 Great Northern Hotel, Kier South East
Ash Dookhony, management trainee, adds additional datum lines to ensure that the ground floor slab is cast at the correct level during major structural alterations at the Great Northern Hotel, King's Cross.

2 Network Rail in East Anglia, Kier Construction
Chris Wright, site supervisor (far right) with personnel from the earthworks contractor at Manningtree, Essex. The Manningtree railway works are part of Kier Construction's five-year framework agreement in partnership with Network Rail to manage and implement maintenance and repair of bridges, culverts, embankments, drains and other structures throughout the East Anglian region of the network.

3 Al Jalamid, Saudi Arabia, Kier Construction
Plant and equipment ready to commence work on the eight-year contract for Ma'aden of Saudi Arabia to establish and operate an open pit phosphate mine – potentially the world's largest phosphate project. Kier is working in joint venture with its partners, Al-Qahtani (Saudi Arabia) and Comedat (Jordan) on this contract.

Construction markets and outlook

We enter the new financial year with strong order books and a healthy pipeline of 'probable' awards which, together, secure around 93% of our targeted revenues for 2010 and around half of our target for 2011. Whilst there may be uncertainties around the level of future construction markets we are better placed than many of our competitors to win further construction work and to increase our market share whilst maintaining a healthy margin. The main factors that differentiate Kier from our competitors are:

- our wide geographic regional network of 32 offices across the UK giving the businesses strong integration into local communities, our client base and our supply chain;
- our strong central co-ordination of national clients;
- a good track record of performance delivery;
- a strong Group balance sheet;
- an ability to manage smaller contracts;
- a strong safety record, which is of increasing importance to clients; and
- a culture of client service that creates repeat business for the Group.

With these winning themes we are well positioned to continue to attract new business. Moreover, our framework agreements in both the public and private sectors continue to provide us with a good long-term and steady stream of work. On the current national P21 healthcare framework we have been successful in winning 22 schemes of the 34 on which we were short-listed last year and on the Academies framework we have been awarded the contract or preferred bidder status on 12 out of 17 of the schemes for which we bid. We are currently bidding for the follow-on for both of these frameworks: Academies 2 which has a national value of £4bn and is scheduled to start in November 2009; and P21+ which is anticipated to have a national value of £700m per annum for six years. We have now started work as one of three contractors identified by Argent for their £2.4bn Central Framework contract at King's Cross which includes around 8m sq ft of mixed-use development over a 10 to 15-year period.

In the energy sector our status and exemplary track record continues to attract work. We are bidding for the planned Kingsnorth coal-fired power station, which will include carbon-capture technology, and for planned nuclear power stations across the UK, starting with EDF's proposed nuclear power station at Hinckley.

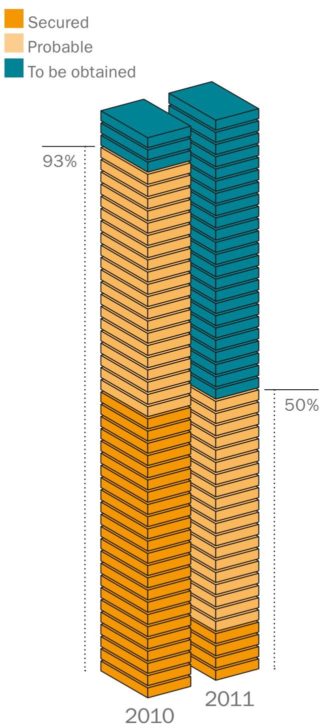
Overseas we are looking at opportunities in Saudi Arabia, Abu Dhabi and Hong Kong.

Construction order books – secured and probable

£2.2bn

(2008: £2.1bn)

Percentage of targeted revenue secured



Phillip Downham
Project manager
Kier Build

INTEGRATED EXCELLENCE

PROJECT **King's Cross projects, Kier Build, Kier South East, Kier Construction**

Kier Build is currently working on the first phase of the T1 building Energy Centre – shown here – part of property developer Argent's King's Cross Central development. Kier is one of a consortium of three contractors chosen by Argent to deliver the £2.4bn overall scheme. Also part of the scheme is the Great Northern Hotel redevelopment being undertaken by Kier South East. Alongside both projects, Kier Construction is just beginning the £27m King's Cross roof refurbishment project for Network Rail. Here, representatives of the three Kier businesses discuss their respective projects at King's Cross.


Neil Cook
Senior surveyor
Kier South East
Amy Kwok
Sub agent
Kier Construction

KIER SUPPORT SERVICES

GMAC Bracknell, Kier Facilities Services
Kier Facilities Services resident engineer *Dave Henderson.* Kier Facilities Services was responsible for the design and installation of a full range of mechanical & electrical services, including the standby power supplies, for a new data centre and offices for the new GMAC headquarters building in Bracknell.

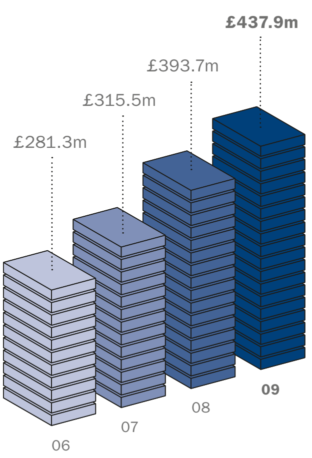
SUPPORT SERVICES

Current economic conditions provide good outsourcing opportunities for our Support Services businesses as public sector and private sector organisations continue to examine their cost base.

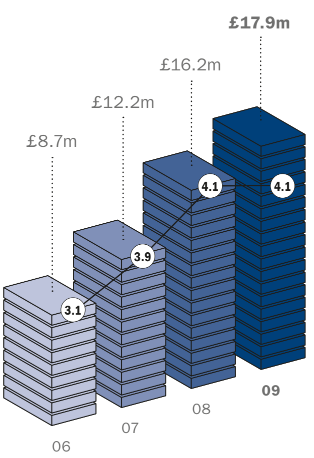
www.kier.co.uk/supportservices

- **£600m contract signed with North Tyneside Council to maintain its housing stock for ten years**
- **Long list of contracts to bid**
- **Good visibility of revenue and earnings**
- **Opportunities for further outsourcing contracts – private and public sector**

Revenue



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

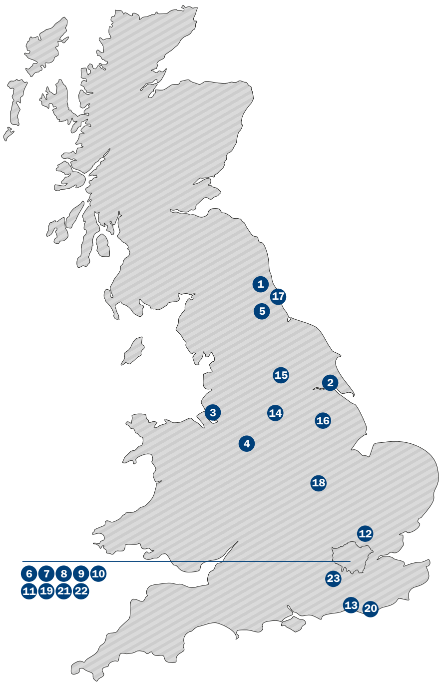


Local authority clients of Kier Support Services division

Kier Building Maintenance
1 North Tyneside Council
2 Kingston upon Hull City Council
3 Sefton One Vision Housing
4 Stoke-on-Trent City Council
5 East Durham
6 London Borough of Islington
7 London Borough of Newham
8 London Borough of Hackney
9 London Borough of Harrow
10 London Borough of Hammersmith & Fulham
11 London Borough of Greenwich
12 Harlow District Council
13 Brighton & Hove Council
14 Sheffield City Council
15 Leeds
16 Lincoln City Council
17 Easington District Council

Kier Street Services
18 Corby
19 Waltham Forest
20 Eastbourne
21 Bexley
22 Bromley

Kier Facilities Services
23 Surrey County Council



Kier Street Services
Employing over 600 staff and operating a large fleet of specialist equipment, Kier Street Services provides tailor-made services or one-stop-shop solutions to many environmental maintenance requirements.

Kier Building Maintenance
Our mobile response teams provide planned and reactive maintenance for over 240,000 public sector homes.

Kier Plant
Kier Plant approved electrician *Mark Futter*, plant mechanic *James Waterfield* and depot manager *Edward Carr* working on equipment at the Kier Plant depot in Setchey, King's Lynn.

Kingsgate House, Redhill
Kier Facilities Services
Kier Facilities Services was responsible for the design and installation of mechanical, electrical and public health services to Kingsgate House, a prestigious eight-storey office building in the heart of Redhill, Surrey.

SUPPORT SERVICES
CONTINUED

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

Revenue in Support Services rose 11.2% to £437.9m (2008: £393.7m). Operating profit, before deducting the amortisation of intangibles of £2.2m, increased by 10.5% to £17.9m (2008: £16.2m) maintaining the margin at 4.1%. Once again, the cash position within the division was strong with £19.3m generated during the year to give a year-end cash balance of £36.7m (2008: £17.4m) which includes our investment in plant of £18m. The order books have grown to £2,292m at 30 June 2009 (2008: £2,023m), reflecting an expansion of existing contracts together with the award of a £600m contract for North Tyneside Council which was signed in September 2009.

The largest and fastest growing business stream is Building Maintenance, with revenue in the year up 14.0% to £329.1m (2008: £288.7m). We recently signed a £600m contract with North Tyneside Council to repair and maintain its social housing stock and other council-owned property for an initial ten-year term, extendable for a further five years which could take the value to £900m. The contract, which started at the beginning of September 2009, entailed the transfer of 500 council employees to Kier to carry out reactive and planned maintenance to 16,000 council homes and to council-owned buildings. North Tyneside joins Kier's already well-established large portfolio of local authority outsourcing contracts as well as long-term contracts with many London boroughs and brings the total number of public sector homes maintained by Kier to over 240,000.

Kier Building Maintenance has also been awarded a £3m per annum Decent Homes contract for seven years within the London Borough of Southwark and has been short-listed for its housing planned maintenance contract worth up to £25m per annum for five years.

Kier Facilities Services, which focuses on facilities management outsourcing, and mechanical & electrical installation and maintenance, generated £92.9m of revenue in the year (2008: £102.1m). In partnership with Kier Asset Partnership Services (KAPS), Kier Facilities Services formed an integrated property and facilities management solution to manage Sheffield City Council's corporate property portfolio under a £60m contract. The business provides facilities management services to around 300 properties, delivering cleaning, catering, events management, security, CCTV monitoring and mail services through a more streamlined, efficient and cost-effective process.

We were pleased to have renewed our facilities management contract with a leading financial services company to deliver a range of services across their UK portfolio and we were appointed by Surrey County Council to undertake a £44m contract over the next four years to maintain their mechanical and electrical installations and the fabric of the council-owned properties.

Kier Plant has had a challenging, but successful year. The economic climate has seen a reduction in both residential and construction opportunities. However we are investing in selective new equipment and continue to deliver quality equipment to Kier companies and the external market.

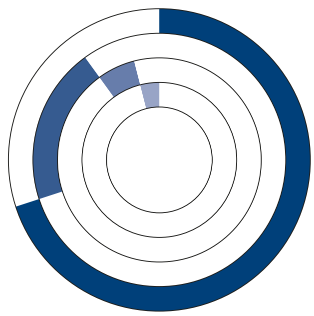
Support Services cash balances
(at 30 June 2009)

£36.7m
(2008: £17.4m)

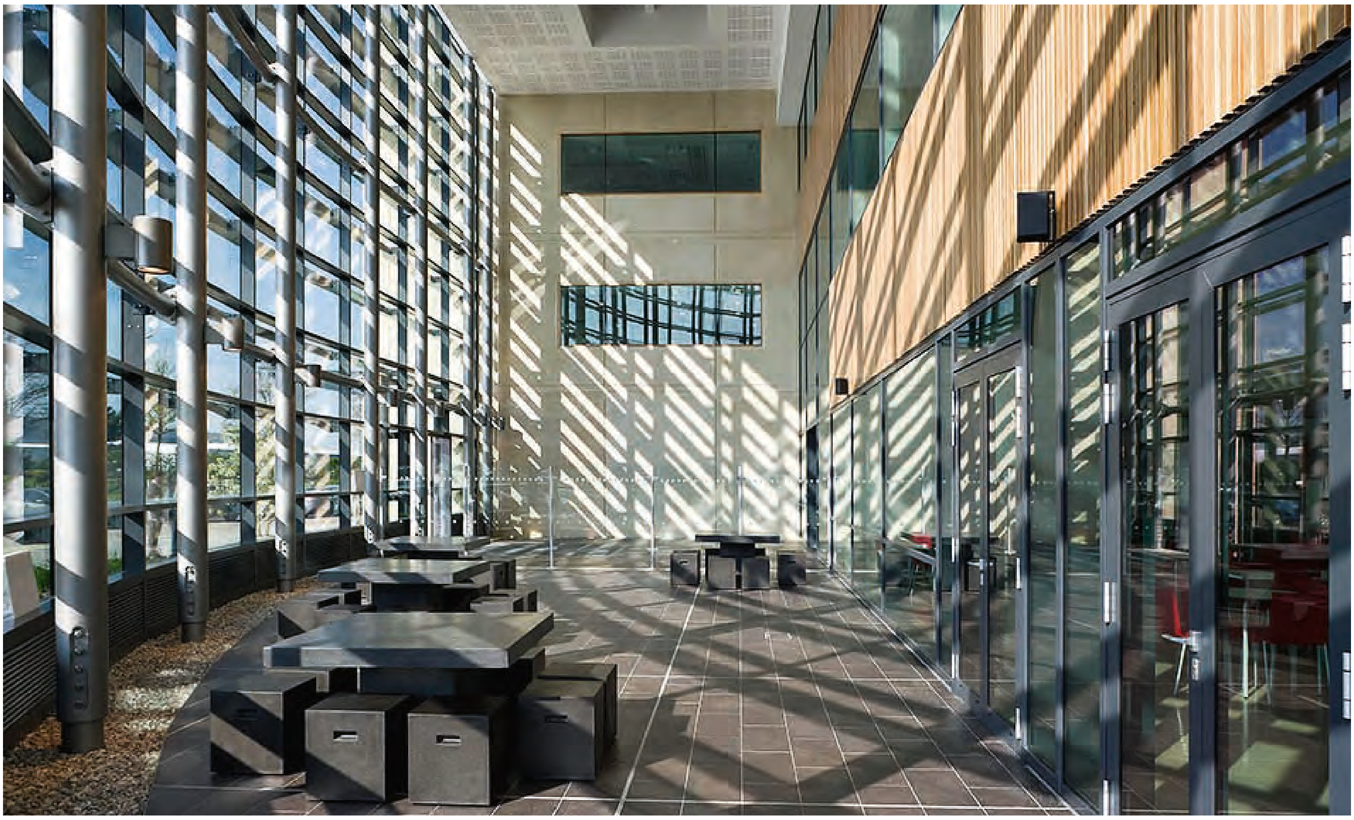
Support Services revenue

£437.9m
(2008: £393.7m)

Revenue by business stream (%)



- Building Maintenance 70%
- Facilities Services 20%
- Plant 6%
- Street Services 4%



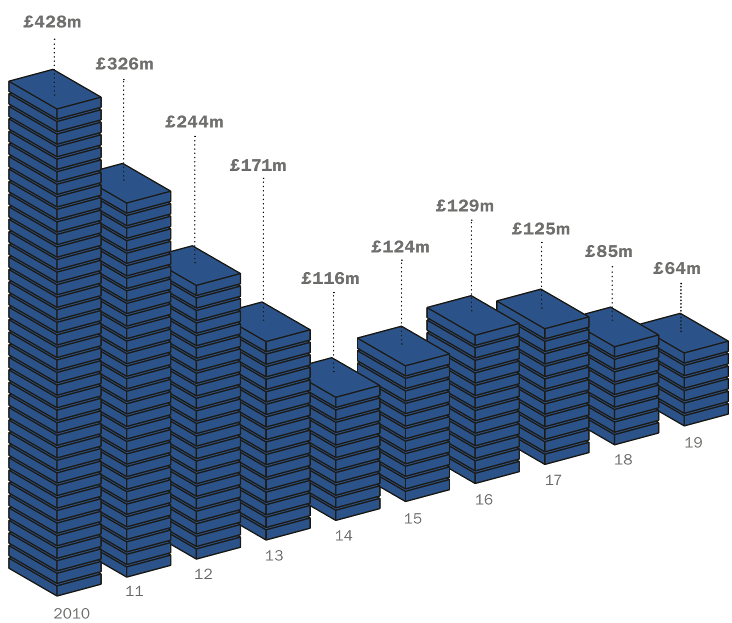
The Hub at Hatfield, Kier Facilities Services
Kier Facilities Services undertook a £4.6m contract with Kier Southern for developer Goodman International Ltd. Kier Facilities Services provided the full design and installation of mechanical, electrical and public health services to Plot 1700, The Hub at Hatfield Business Park.

Support Services markets and outlook

Current economic conditions provide good outsourcing opportunities for our Support Services businesses as public and private sector organisations continue to examine their cost base. Our integrated property and facilities management solution that secured us the Sheffield contract can be replicated across the country as pressure is placed on local authorities to achieve better value for money.

In Building Maintenance our order books continue to provide long-term visible revenues to 2019 and beyond at strong, consistent margins. These long-term contracts and partnerships allow us to expand our activities through the involvement of other Group businesses as our partners seek a one-stop, all-inclusive delivery model across their estates, a model that we are uniquely placed to deliver. There is a strong pipeline of new contracts and opportunities, with Kier Building Maintenance already short-listed on a number of major contracts within Barnsley, Birmingham, Norwich, Nottingham, Southwark and Thurrock.

Support Services secured forward revenue



INDIVIDUAL FLAIR

PROJECT **Writhlington School, Kier Western**

Funded through the government's BSF programme, the new Writhlington School will have capacity for 1,300 students. The Writhlington School project represents an ongoing successful relationship with Bath & North East Somerset Council, forged at St Keyna and Fosse Way schools, totalling over £10m of new-build investment. Representatives of the Kier Western team gather for a site inspection.


KIER PLANT
Matt Emmanuel
Site engineer
Kier Western
Chris Roberts
Graduate engineer
Kier Western
Daryl Parker
Graduate engineer
Kier Western

KIER PARTNERSHIP HOMES

Loves Farm, St Neots
Kier Partnership Homes assistant site manager *Ryan Asher-Powell* (Ryan is on the Kier production management academy), subcontractor supervisor *Richard Gadd* and Kier Partnership Homes trainee surveyor *Joe Wilczynski* (Joe is on the Kier graduate development programme).

PARTNERSHIP HOMES

We remain cautious about the outlook for 2010 but we believe that the difficult market conditions which we have experienced over the past 12 months are beginning to ease.

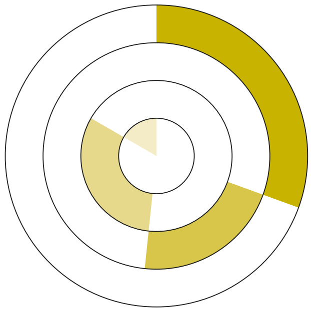
www.kier.co.uk/partnershiphomes

- **Focus on the delivery of affordable housing and regeneration**
- **Skills to integrate mixed-tenure regeneration and private development to maximise value of the land bank**
- **Further reduction in land bank and work in progress**

Plots by region

6,150
units in land bank with planning consent

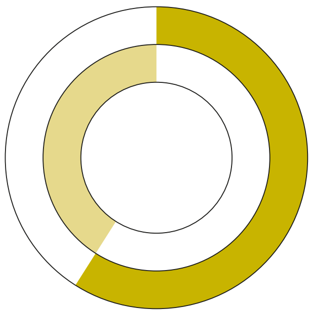
- LINCOLNSHIRE 32%
- ANGLIA 25%
- SOUTH 25%
- SCOTLAND 18%



Unit sales

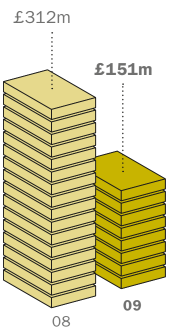
1,141

- SOCIAL SALES 59%
- PRIVATE SALES 41%

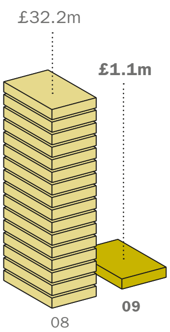


(2008: 2,090)

Revenue



Operating profit



Coombe Road, Maidstone
Kier Partnership Homes' project to build 164 new homes at Coombe Road Estate has formed the second part of two regeneration schemes for Maidstone Housing Trust.

Shorters Avenue, Birmingham
Partially funded by the Housing Corporation and Birmingham City Council, this derelict brownfield site, cleared in 2004 of unpopular housing, has been developed for affordable rent, shared ownership and outright sale.

Roke Lane, Witley
The Roke Lane development in Witley is a mixed-tenure scheme of shared ownership and rented accommodation. The scheme comprises two terraces, each of five dwellings separated by a pair of semi-detached houses, two bungalows and a block of six flats. The scheme includes 10% renewable energy with the provision of solar panels.

Anchor Quay, Lincoln
Kier Partnership Homes' private house building arm has built a development of 178 town houses at the Anchor Quay site in Lincoln.

PARTNERSHIP HOMES
CONTINUED

Loves Farm, St Neots
This scheme comprises construction of 122 houses and apartments: 87 for rent, 30 for shared ownership and five for discounted sale. The scheme is on four separate parcels of land within one major development, to be built using timber-frame construction to EcoHomes 'Very Good' standard.

Conditions within the housing market were difficult throughout the year, largely due to restricted mortgage availability and tighter mortgage criteria as well as weak buyer sentiment. As predicted, our unit sales declined from 2,090 in 2008 to 1,141 in 2009, generating reduced revenue of £150.8m (2008: £311.5m). 59% of the unit sales were social housing sales, mostly under contracts with housing associations, and 41% were private unit sales (2008: 43% social, 57% private). Average selling prices fell from £149,000 to £132,200 through a combination of reduced selling prices and an increase in social housing sales.

We generated operating profits of £1.1m (2008: £32.2m) before exceptional charges of £44.3m (2008: £36.1m). £1.8m of the exceptional charge relates to further redundancy and reorganisation costs following the merger of our private and social housing businesses (2008: £9.5m). This merger has provided additional cost savings which now amount to £26m per annum in total since we began the business reorganisation. We have also reviewed the carrying values of our land and work in progress and have written down land values by a further £30.3m in the second half of the year bringing our total write-down to £42.5m for the year (2008: £26.6m). The land write-downs are as a result of reduced forecast revenue on a small number of sites where selling prices continued to fall in the second half of the year coupled with sites where market conditions have required us to amend planning. Together with the £26.6m provided in the year to 30 June 2008 the land write-downs now total £69.1m over two years and represent around 23% of the initial value of the land bank. Our land bank at 30 June 2009 is carried at £230m after write-downs (June 2008: £276m) represented by 6,150 plots, all with planning consent, approximately half of which were acquired over two years ago. The average plot cost, after land write-downs, is £37,000 with the southern area having the highest value at £51,000, due to larger plot sizes on greenfield sites and Lincolnshire having the lowest at £24,000 a plot.

There was a cash outflow of £22m in the year including the final payment for Hugh Bourn Homes of £13m, committed land payments and options of £38m and restructuring and redundancy costs of £8m. No new land purchases are presently being considered although £27m of committed expenditure is expected, most of which falls in the current financial year.

Our sites are principally located outside major cities and exclude high-rise flats. In Lincolnshire, Cambridgeshire and Bedfordshire our sites are principally greenfield housing developments. In the south-east and Scotland, whilst we have a number of developments with apartments, they are typically low-rise. We have reduced our stock of completed units from 307 at the beginning of the financial year to 101 and in many areas we are starting to build to provide sales in 2010 as demand returns.

Average selling price

£132,200

(2008: £149,000)

Land bank
(at 30 June 2009)

£230m

(2008: £276m)

Plots with planning consent

6,150

Average plot cost

£37,000

Tesco Battle Hospital, Reading
This development in Reading comprised the design and construction of 65 flats above a 60,000sq ft Tesco superstore constructed by Kier Southern. It achieves a unique configuration of retail space with affordable rented homes above. The end user for these flats was Southern Housing Group and the project was also awarded the prestigious title of 'Housing Project of the Year 2008' by Builder & Engineer Magazine.

Partnership Homes market and outlook

We remain cautious on the outlook for 2010 but we believe that the difficult market conditions which we have experienced over the last 12 months are beginning to ease. Visitor levels have been steady over the last six months and are now showing some signs of modest increases; the downward pressure we saw on selling prices is beginning to alleviate and we have seen price stabilisation in some of our locations. We are therefore recommencing construction on a number of developments and starting new sites in locations where demand is stronger. We continue to enforce rigid controls over expenditure.

Our reservations for the first two months of the financial year are some 40% ahead of last year. When combined with low levels of brought-forward reservations and exchanged contracts, our order books at 31 August 2009 are in line with last year's and, together with our completions to date, they secure around 65% of our targeted unit sales for 2010.

We are short-listed as one of two bidders on a £55m housing PFI project in Woking which will provide 320 new homes. Other PFI opportunities include projects in Birmingham, Hull and Portsmouth. We are also bidding as one of four for a local housing company in Sheffield to provide 2,500 mixed-tenure homes, as well as opportunities in Nottingham and Bolton.

We are seeking land-led development opportunities for Registered Social Landlords as well as potential land swaps with other developers. Our new business model should ensure that our diverse land bank is better utilised and this, along with a management team experienced in social housing, regeneration and private development, will position us well to take advantage of the market as it recovers.

Clive Watson
Site manager
Kier Northern

INTEGRATED EXCELLENCE

PROJECT **North Road Primary School, Darlington, Kier Northern**

This 62-week Pathfinder scheme for the government's Primary Schools Capital Investment Programme (PSCIP) will kick-start the regeneration of Darlington. The project includes the new-build of a 3,000sq ft glulam and timber-framed structure and the environmental aspects include a sedum roof and living wall. The project is required to achieve a 'High' BREEAM score.

The Kier Northern site team has recently achieved a Considerate Constructors Scheme score of 37 out of 40, which reflects the hard work and close liaison with the adjacent school. Members of the Kier Northern team examine some of the drawings during a site progress review.

Chris Todd
Senior quantity surveyor
Kier Northern

Steve Lynn
Site manager
Kier Northern

KIER DEVELOPMENTS

One Reading Central
Kier scaffolder *Gary Blatchford.* The Reading Central development, a strategic partnership between Kier Property and Invista Real Estate Management, includes this 219,000sq ft ten-floor headquarters building, seven floors of which will be occupied by Yell, the international directories business. The building is being constructed by Kier Build and Kier Moss, with Kier Plant providing equipment and services.

DEVELOPMENTS

Through our low-risk strategy of largely non-speculative development, Kier Property is not exposed to large holdings of unoccupied buildings and our portfolio is diverse. Through active asset management we continue to enhance value, especially given our expertise in the planning process.

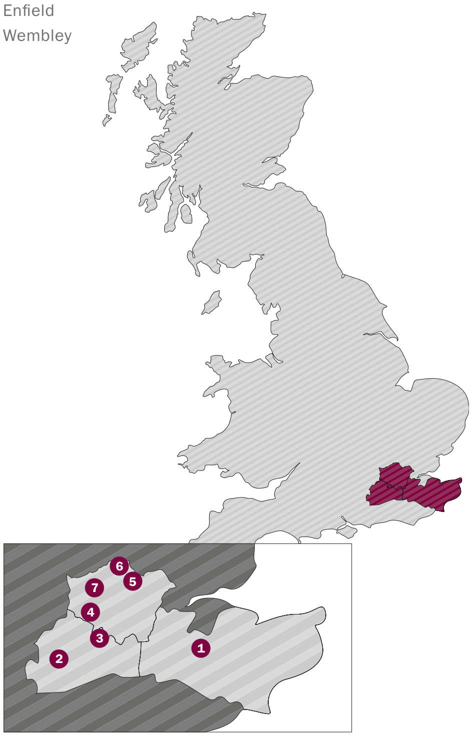
www.kier.co.uk/developments

- **Completion of UK Supreme Court, on time and within budget – now being sold for over £30m**
- **Established Solum Regeneration, our joint venture with Network Rail to develop station sites in the south-east of England**
- **Selection as preferred bidder on PFI Police Investigation Centres – £60m of construction and £3m of equity (our share)**
- **Secured outsourcing contract for Sheffield City Council to manage the council's non-residential property portfolio**

Solum Regeneration, a Kier Property/Network Rail JV

Station-related sites in London and the south-east of England

1 East Maidstone
2 Guildford
3 Epsom
4 Twickenham
5 Walthamstow
6 Enfield
7 Wembley



Revenue

£64.7m

(2008: £84.5m)

One Reading Central
Kier Property
Kier Property and Invista Real Estate have created a joint venture to develop this major HQ office campus in the heart of Reading city centre.

United Kingdom Supreme Court
Kier Property
This project was completed on time and to budget in March 2009. The new UK Supreme Court was ready for occupation by the MoJ in July 2009 and for the official opening by HM The Queen in October 2009.

Sheffield Town Hall
Kier Asset Partnership Services (KAPS)
KAPS achieved its first success in winning a seven-year, £60m contract to manage Sheffield City Council's corporate property portfolio, which started on 1 July 2009.

Kent BSF
Kier Project Investment
In September 2009 Kier invested in Kent's first BSF partnership to provide 34 secondary schools.

DEVELOPMENTS
CONTINUED

Our Developments division comprises Kier Property, which includes commercial, office, industrial, retail and mixed-use development both directly and through joint ventures; Kier Project Investment, our PFI investment business; and Kier Asset Partnership Services (KAPS), which has been established for local authority property management and development contracts.

Revenue for the year to 30 June 2009 of £64.7m (2008: £84.5m) was 23.4% below last year, reflecting the low level of development sales within our Property business. The division recorded an operating loss of £1.9m before exceptional items (2008: profit of £11.7m) principally due to incurring bidding costs in both the PFI business and in connection with the successful tender for the Sheffield outsourcing contract within KAPS. An analysis of the results is set out below:

	Year to 30 June			
	2009		2008	
	Revenue £m	Operating profit £m	Revenue £m	Operating profit £m
Property	49.3	0.8	69.6	12.0
Project Investment	15.4	(1.2)	14.9	0.3
KAPS	–	(1.5)	–	(0.6)
	64.7	(1.9)	84.5	11.7

Within our Property business we completed the refurbishment works for the new UK Supreme Court in March 2009, with Kier Wallis, our specialist refurbishment business, as contractor. The building was handed over to the Ministry of Justice on time and on budget in advance of its official opening in October. We have now exchanged contracts for the disposal of the UK Supreme Court for over £30m which provides us with an exit yield of around 5% on the post-tax disposal proceeds.

In April construction by Kier Regional began on the new headquarters for Ordnance Survey in Southampton. Once this is completed Ordnance Survey's existing 25-acre site will be released to Kier Property for a mixed-use scheme.

Excellent construction progress is being made at our 219,000sq ft Reading Central office scheme which we sold to Clerical Medical Investment Group Limited but which we continue to develop. Kier Regional, the contractor, is due to complete the building early next year and seven of the ten floors have already been pre-let to Yell with an encouraging level of interest in the remaining vacant space.

Solum Regeneration, our joint venture with Network Rail, has had a good first year. This innovative partnership gives us the opportunity to develop seven station-related sites in London and the south-east at East Maidstone, Guildford, Epsom, Twickenham, Walthamstow, Enfield and Wembley. We have made much progress on all of these opportunities with Epsom likely to be the first site to see development activity. A number of new development opportunities are now being added by Network Rail to the existing portfolio. These include sites for the development of budget hotels, shops and affordable housing which will generate significant future value.

The commercial property market continues to be difficult and, whilst exit yields are now beginning to harden, rents are beginning to fall. Consequently we have examined the carrying values of our developments and work in progress and have made provisions against the values amounting to £7.3m.

Kier Project Investment (KPI), our PFI business, had a number of successes. We completed construction on the Norwich Schools project, which now means all 12 of our current investments are operational. In November 2008 we were announced as preferred bidder on the Norfolk and Suffolk Police Investigation Centres scheme with a capital value of £60m. Kier Regional is the contractor on this scheme and, together with KPI, is working with the two police authorities and is well advanced in taking the six sites through the planning process. Financial close is expected on this project in November 2009 bringing with it a £3m PFI investment.

Ordnance Survey, Kier Property
Left to right: Kier Property associate director *Adam Vine*, Kier Southern engineer *Ben Beanland* and Kier Moss assistant quantity surveyor *Kenny Taylor.* Under development by Kier Property with construction by Kier Southern and Kier Moss, the new Ordnance Survey head office, sited alongside the M271, will be a flagship corporate building at the gateway to Southampton, the city that has been the agency's home for over 160 years.

In September 2009, Kier purchased Telereal Trillium's investment in Kent's first BSF Local Education Partnership (LEP) which was established in 2008 to provide 34 secondary schools in Kent to be delivered through three phases of construction. Kier was already in place as the principal construction supply chain partner of the LEP and is active on the first phase of schools which are in construction. We are now working on the second phase of schools for start on site during 2010 and we expect to commence working on the proposals for the third phase once the second is in construction. The purchase secures an additional £300m of construction work for Kier and significant additional PFI investment opportunity. The consideration for the purchase was £4.2m, of which £2.0m is conditional upon the funding being approved for the second phase of schools. The contract also provides Kier Support Services with a 25-year facilities management contract.

Our portfolio of PFI projects now totals 14 including the Police Investigation Centres and the first phase of the Kent PFI project. Our committed equity investment in these schemes stands at £28.0m (2008: £18.4m) of which £18.4m has been invested to date. The directors' valuation of the committed investment of £28m at a discount rate of 8% is £50.7m.

KAPS was established to provide total property asset management services to local authorities and other public bodies. Its objectives are to leverage maximum value from property holdings for clients whilst providing improvements in day-to-day real estate management. KAPS achieved its first success in winning a seven-year, £60m contract to manage Sheffield City Council's corporate property portfolio, which started on 1 July 2009. The contract is to manage the city's approximately 6,700 operational and investment property interests and our remit is to develop and deliver long-term asset management strategies on behalf of the council.

Developments markets and outlook

The forthcoming year will continue to challenge the sector. Liquidity remains a key issue although there are some signs that banks are cautiously re-entering the market and it would appear that prices have begun to stabilise.

Through our low-risk strategy of largely non-speculative development, Kier Property is not exposed to large holdings of unoccupied buildings and our portfolio is diverse. Through active asset management we continue to enhance value, especially given our expertise in the planning process.

We believe that long-term partnerships, such as those established with Network Rail and Sheffield City Council, offer us the certainty of a secure income stream which extends over many years. This provides us with a stable platform from which we can take advantage of the current market conditions to secure assets at depressed values. We will also continue to grow our business through appropriate strategic alliances and opportunities to partner development schemes moving forward.

As more pressure is placed on local authorities to make the most of their assets, the KAPS model is well placed to capture this fast-growing market. For Kier, the KAPS expertise completes the capability of the Group to provide clients with a total property solution from inception to long-term management.

Committed investment

£28.0m
in a portfolio of 14 PFI projects

(2008: £18.4m)

CHIEF EXECUTIVE'S REVIEW
CONTINUED

Port of Liverpool Wind Farm,
Kier North West
The Port of Liverpool Wind Farm is a £14m project which saw the installation of four N90 wind turbines. Each wind turbine is 80m tall with 45m long blades, installed on the edge of the River Mersey. This project commenced in February 2008 with a 53-week programme finishing on time, within budget and with an exceptional health & safety record.

Health and safety

Good health and safety performance demands positive safety leadership at all levels. Throughout Kier we have embarked on a Behavioural Safety Leadership programme that focuses on positive behaviours and identifies unsafe acts or conditions that need to be addressed. The staff buy-in has been tremendous and the results are beginning to show in a greatly reduced Accident Incident Rate (AIR). We believe this focus on individual and collective behaviour will continue to raise health and safety standards throughout Kier and the supply chain.

Our AIR in June 2008 was 588 per 100,000 and in June 2009 it was 404 per 100,000, comparing very favourably with the HSE target rate of 906. This continuous improvement is inextricably linked to our project teams' positive attitude and our behavioural programme.

People

On behalf of the Board I would like to thank all of our people for their hard work and loyalty over the last 12 months. 2009 has been a challenging year for many parts of the Group and inevitably the focus throughout the business has been on cost reduction and headcount, with the consequential effect of increasing workloads for many individuals. The Board appreciates everyone's efforts in continuing to pull together to support the Group and I am confident that, with our wealth of talented, committed people, we will continue to steer our way through these uncertain times.

Markets and prospects

Our Construction businesses, with their wide geographic coverage, array of frameworks, strong pipeline of projects and appetite for smaller value contracts, are well positioned to endure the uncertainties of the construction marketplace whilst maintaining a healthy margin. Our Support Services business has a strong order book, a good pipeline of prospective bidding opportunities and a growing reputation for good quality service delivery which will provide the division with long-term growth. The marketplace for Partnership Homes is showing encouraging signs of improvement, particularly in private development, which will allow us to utilise our well spread, consented land bank. There are a number of long-term opportunities in our Developments business which will provide considerable value for the future.

The current economic climate will continue to pose challenges to our business over the next 12 months. I believe, with our spread of operations and product diversification coupled with the quality and commercial capability of our staff, we are well equipped to manage the risks inherent in this stage of the economic cycle and, indeed, to take advantage of opportunities that will, inevitably, arise in this environment.

John Dodds
Chief Executive

CORPORATE RESPONSIBILITY

Kier has made great strides on its corporate responsibility (CR) journey during the last financial year. Having put in place several nationally recognised frameworks and processes upon which to build our Group-wide targets, benchmarking and audit procedures during the previous year, we are now ready to go forward with more robust and transparent actions based on more defined objectives. This report is an abridged version of that posted on our website – **www.kier.co.uk/responsibility**

Last year significant progress was made towards our aim of becoming a fully responsible organisation. Despite challenges presented by the diversity and structure of our businesses an overriding, strategic approach to CR is now in place. We are confident that we now have the necessary tools and processes to meet the aims set out in our Strategy for Sustainability, launched in 2007. Indeed, the group's progress was recognised in the year as a short-listed finalist in the Construction News Quality Awards 2009, Corporate Social Responsibility category.

Benchmarking frameworks

The Business in the Community (BITC) Corporate Responsibility Index has become the foundation for both our reporting and plan of action. We subscribed publicly to the BITC CR Index for the first time in 2008, with results and feedback obtained early in 2009. Benchmarked against both industry at large and our peers, the Group scored a creditable 58.5% for a first-time submission.

This enabled Kier to establish a series of benchmarks to evaluate its management practices in four key areas of CR (environment, workplace, marketplace and community) and performance in a range of environmental and social impact areas. Working closely with BITC, we have now undertaken a detailed gap analysis and identified areas where we are doing well and where we need to improve.

As a result we have set an ambitious target to achieve 70%, or bronze performance status, in the next three years, acknowledging that the bar tends to be raised year-on-year. We have also streamlined our Group Sustainability Steering Committee, headed by main board director Paul Sheffield, with key responsibilities established to reflect the core reporting areas under the BITC CR Index.

In order to address the findings of the 2008 exercise, the Group plans to significantly reinforce its measurement and monitoring mechanisms to improve its performance for the 2009 review. These are based broadly on the four key sectors evaluated by the CR Index but further qualified into five sectors to cover environment (and climate change), workplace (sub-divided into health & safety and employees & training), marketplace (customers and supply chain) and community engagement. We also benchmark, set targets for, and report via the audited and assessed framework of the Considerate Constructors Scheme which covers eight distinct categories under which we can set performance standards.

Environment and climate change

To respond to The BITC CR Index gap analysis we have accelerated actions on several environmental initiatives, including establishing a Kier Group Energy Committee. An important undertaking this year has been the Group's response to the 2009 Carbon Disclosure Project (CDP 2009) questionnaire which, together with our Climate Disclosure Leadership Index (CDLI) score, is to be publicly available. Taking part in the CDP has improved our understanding of our position in relation to the risks and commercial opportunities associated with the transition to a low-carbon economy.

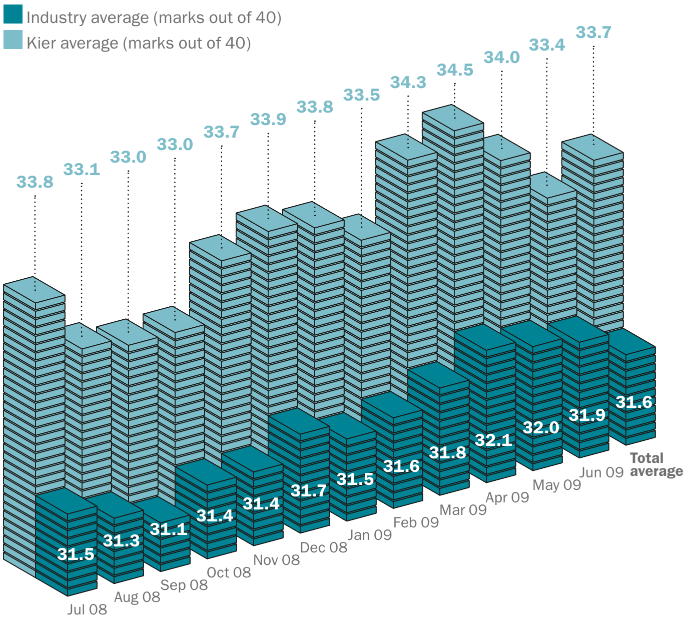
The Group became involved in several Waste & Resources Action Programme (WRAP) initiatives aimed at reducing construction waste, including the 'Halving waste to landfill' initiative. The Building Research Establishment (BRE) has developed a bespoke version of its on-line SmartWaste tool which was adopted by the Group in June 2008 to identify waste streams and evaluate options to reduce, re-use or recycle it.

1 Kier Sheffield, Kier Building Maintenance
Young City Stewardship apprentices helped make a new outdoor play area for residents at the Batemoor TARA office in Sheffield.

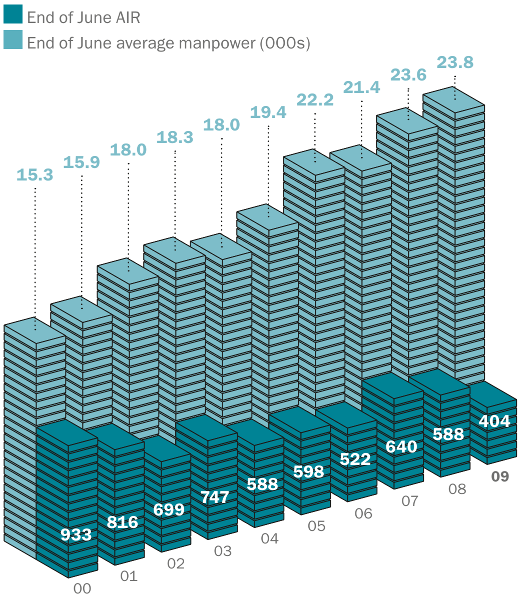
2 Woodchurch High School, Kier North West
Pupils from Woodchurch High School were guests of honour when they joined Kier North West at the turf-cutting ceremony to mark the start of the £25m project to build their new school.

CORPORATE RESPONSIBILITY
CONTINUED

Considerate Constructors Scheme by month



AIR v manpower ten-year chart



The KEEP (Kier Employee Environmental Pledge) campaign was launched across the Kier Support Services division and is now being spread across the Group for Kier employees to demonstrate a commitment to the environment including switching lights and computers off at night.

Workplace – health & safety

During the year Group businesses continued to focus on getting back to basics to ensure that we create and maintain safe sites. Effective supervision is a key factor in maintaining safe sites. The Group is committed to all supervisors on construction sites holding the Site Supervisors Safety Training Scheme (SSSTS) or a recognised equivalent supervisory qualification by January 2010.

Safety leadership is viewed as the most effective way of achieving a safe working environment and eliminating injuries. One-day Culture Based Safety (CBS) and one-day Safe & Unsafe Acts (SUSA) workshops are being delivered Group-wide and within our supply chain at management and supervisor level.

Workplace – employees & training

Over 15% of our workforce is on new entry training programmes and during the year a total of 1,031 employees were registered on development programmes (2008: 864).

In 2008 we instigated, co-designed and rolled out a Foundation Degree in construction management, in partnership with Oxford Brookes University. We launched an e-learning programme on core business issues in the last year with over 900 of our staff completing training.

During the year, the Group has set up three skills academies, or on-site training facilities and operations, geared at ensuring that the supply chain and tradesmen on our long-term projects at Kent BSF, King's Cross and Stoke-on-Trent City Council have access to specific and relevant skills.

The Group has recently received the three top accolades for people development in the UK: the top Chartered Institute of Personnel & Development (CIPD) for People Management; the UK winner of the National Training Award for collaboration and partnership and UK winner of the National Training Awards for Large employers, 2008.

Marketplace – customers & supply chain

During the year the Group launched its Business Ethics Policy which draws together a wide range of existing policies and statements introduced over time to ensure that we all conduct our business in an ethical manner and have the highest standards in dealing with our customers, supply chain and employees.

Our regional construction businesses were benchmarked during the year to ensure continued improvements in key areas including our Zero Defects campaign, the average number of days to remedy defects and customer satisfaction surveys. In excess of 15% of our projects were completed and handed over with no defects. We have set a target of 25% for next year.

We completed the comprehensive Supplier Module for the Carbon Disclosure Project in 2009 dealing with the environment, climate change and greenhouse gas (GHG) emissions in our supply chain. To be a member of the Kier supply chain, a subcontractor or supplier has to complete the Contractors Health & Safety Assessment Scheme (CHAS) Environmental questionnaire.

Community engagement

The Group, by the very nature of its business streams and customer base, is inevitably integrated within the communities in which it works.

Business in the Community CORPORATE RESPONSIBILITY INDEX 2008

The Group participated in the 2008 BITC CR Index

CONSIDERATE CONSTRUCTORS ASSOCIATE

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

THE HARD HATS CONSTRUCTION INDUSTRY AWARDS 09 WINNER

The Group was winner of the Contract Journal Training Award category

construction news Quality Awards 09 FINALIST

The Group was finalist in the Corporate Social Responsibility Award category at the 2009 Quality Awards

Halving Waste to Landfill

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

Our Building Maintenance businesses are particularly well positioned within their respective communities and have demonstrated remarkable achievements through a series of awards which include the Two Ticks disability symbol awarded by Jobcentre Plus in 2007 and reaccredited in 2008 and 2009, the BITC Big Tick award in the Employability category in 2008 and 2009, and the Royal Mail Community Impact Award at the Sheffield Chamber of Business Awards 2008.

During the year we adopted the corporate social responsibility model 'Connecting' that had been developed by Kier Moss in association with its regional BITC links and, in March 2009, made this model a mandatory process for all of our Regional businesses.

Group companies donated, directly and indirectly, £354,000 (2008: £252,000) to a wide variety of charities.

Considerate Constructors Scheme

Since we became an Associate Member in January 2008, the Considerate Constructors Scheme (CCS) has been an invaluable tool in gauging how all Group operating businesses perform each month, both against the Group average and the overall industry average, under the scheme's eight categories, all of which can be included in one or more of the five BITC CR Index sections described above.

During the year our companies received no fewer than 21 national CCS Awards, including three Gold and 10 Silver, compared with only eight awards in 2008.

Our annual monthly average score jumped from 32.41 out of a maximum of 40 points in 2008 to 33.66 in 2009 and our monthly average scores exceeding the national average have further improved from 1.13 to 2.06. Our highest Group score in the year was in April 2009 at 34.48, representing 2.43 above the industry average. Our target for 2010 is to exceed the industry average by 2.10 points for the year.

HOW CORPORATE RESPONSIBILITY IS MANAGED AT KIER

For a number of years the Group has had in place a Sustainability Steering Group which initiated the Group Strategy for Sustainability, launched in 2007. The structure of this steering committee has now been refined and focused through functional responsibilities based upon the framework and guidance provided by the BITC CR Index. This committee is chaired by main board director Paul Sheffield who reports back to the Group Board. In this way all of our policies, benchmarking and reporting can be closely aligned to the key management practice sections covered by the CR Index (Environment, Workplace, Marketplace, Community) and incorporate a range of other social and environmental issues. In parallel to this central group there are other sub-committees that report into the centre, such as the Kier Group Energy Committee, chaired by Kier Support Services director Karim Khan.

CHAIR OF KIER GROUP SUSTAINABILITY STEERING GROUP

Paul Sheffield, *Main board director, managing director of the Construction Division*

COMMITTEE MEMBERS & RESPONSIBILITIES

Environment & climate change
Peter Johnson, *Construction division sustainability manager,* supported by the Group Energy Committee chaired by *Kier Support Services director* **Karim Khan**, and the regional environmental champions within the Safety, Health & Environment Department and other divisional input

Workplace – Health & Safety
Graham Kayley, *Group health & safety coordinator*

Workplace – Employees & Training
Kathy Almansoor, *Personnel and employee relations manager*
Paul Sealy, *Head of Group training & development*

Marketplace – Customers & Supply chain
Steve Underwood, *Strategic development and business improvement director, Kier Regional* supported by **Andrew Hazlehurst**, *Head of procurement, Construction Division*

Community engagement
Teresa Jolley, *Corporate social responsibility manager, Kier Building Maintenance*, supported by the regional 'Connecting' CSR framework and by the Considerate Constructors Scheme coordinators

Considerate Constructors Scheme
Alan Smith, *Director of corporate communications*
This section also contributes data, performance benchmarks and targets for each of the above sectors

Other support
At various times other key staff and committee representatives are brought into the committee for specialist functional or regional input and support

CORPORATE RESPONSIBILITY
CONTINUED

SUMMARY PERFORMANCE TABLE

This table has been based broadly on the BITC CR Index sectors of management practice used to benchmark, monitor and report on corporate responsibility and which we have adopted as key performance indicators. Following its first submission to the BITC CR Index in 2008, when it achieved a creditable 58.5%, the Group aims to achieve a target of 70% within the next three years based upon this improvement plan and the initiatives taken in each sector outlined in this table.

RESPONSIBILITIES | **COMMENTARY ON PERFORMANCE**

1 ENVIRONMENT AND CLIMATE CHANGE

- June 2008 adopted 'SmartWaste' BRE waste management programme across all regional businesses
- January 2009 committed to 'Halving Waste to Landfill' initiative by WRAP
- Undertook 2009 Carbon Disclosure Project questionnaire – identified Construction division carbon footprint as 26,727 tonnes or 18.4 tonnes CO_2/£m revenue
- KEEP – Kier Employee Environmental Pledge – launched to reduce energy consumption in offices and at sites
- Four Green Apple Awards nationally by Group companies

www.kier.co.uk/responsibility/environment

2 WORKPLACE HEALTH AND SAFETY

- AIR – Kier: 404 per 100,000 staff and subcontractors (2008: 588) HSE benchmark: 906 per 100,000 staff and subcontractors (2008: 865)
- Site Supervisors Safety Training Scheme (SSSTS) – 63 courses completed by 168 employees and 610 supply chain members
- Safe and Unsafe Acts (SUSA) initiative launched and 1,431 delegates have attended the workshop
- Occupational Health – Women's health roadshow – Drugs & Alcohol Policy introduced in January 2009

www.kier.co.uk/responsibility/health

3 WORKPLACE EMPLOYEES AND TRAINING

- 1,031 employees in registered development programmes (2008: 864)
- Programme of e-learning core business issues launched – over 900 staff completed such courses
- Business Ethics Policy introduced (including Code of Conduct for employees)
- Employee engagement survey being undertaken in February 2010
- Winner of 2009 *Contract Journal* Construction Industry Award for training and three National Training Awards for 2008

www.kier.co.uk/responsibility/employees

4 MARKETPLACE CUSTOMERS AND SUPPLIERS

- Business Ethics Policy launched – combined existing policies and procedures
- Competition Law Compliance Policy introduced
- Undertaken Supplier Module of Carbon Disclosure Project 2009 – CHAS environmental questionnaire used for supply chain selection process
- Kier Regional benchmarking monitors and targets Zero Defects performance and customer satisfaction data: products, defects, service and perception
- Over 15% of projects completed are handed over with no defects. Our target for next year is 25%

www.kier.co.uk/responsibility/marketplace

5 COMMUNITY ENGAGEMENT

- Donations to charity Group-wide £354,000 (2008: £252,000)
- Corporate Social Responsibility model and template 'Connecting' launched for all regional businesses March 2009
- 2009 BITC Big Tick Awards for 'Creating Brighter Futures' city stewardship for 16 to 18-year olds in Sheffield
- Specialist skills and advisory support for the Homes and Communities Agency

www.kier.co.uk/responsibility/community

6 CONSIDERATE CONSTRUCTORS SCHEME

- Monthly average CCS score for Group achieved four record highs in year – highest 34.48 out of 40.00 in April 2009
- National CCS Awards up from eight in 2008 to 21 in 2009 including three gold and ten silver awards
- Overall Group monthly average up to 33.66 (2008: 32.41) and points exceeding the national average up to 2.06 (2008: 1.13). A target of 2.10 above the industry average has been set for 2010

www.kier.co.uk/responsibility/ccs

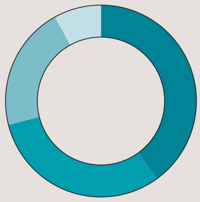
KEY PERFORMANCE INDICATORS

GREEN APPLE AWARDS

Kier won no less than four 2009 Green Apple Awards for its environmental activities during the year, including:

- Kier Building Maintenance (Kier Sheffield) – District Boiler Maintenance Programme
- Kier Eastern – Bat Bricks and Bouquets, looking after and improving biodiversity in East Anglia
- Kier Construction Division – Make a Date With Waste, an initiative to disseminate waste management best practice by means of a calendar

'SMARTWASTE' FIGURES FOR THE CONSTRUCTION DIVISION
YEAR TO 30 JUNE 2009



The benchmark for our commitment to 'Halving Waste to Landfill' by 2012 will be based upon WRAP's guidance for measuring such waste.

RoSPA/BRITISH SAFETY COUNCIL AWARDS

AWARD	2009	2008
RoSPA Gold Medal	9	12
RoSPA Gold	13	10
RoSPA Silver	2	1
RoSPA Bronze	0	0
British Safety Council National Award	17	17

AIR*

Kier: 404 per 100,000

HSE: 906 per 100,000

(*See graph on page 34)

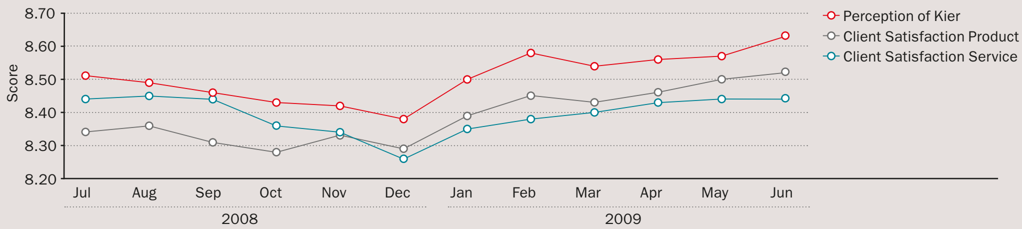
NUMBER OF EMPLOYEES IN REGISTERED DEVELOPMENT PROGRAMMES

	2009	2008
Day release/further education students	274	200
Craft apprenticeships	213	160
Foundation degree at Oxford Brookes University	54	45
NVQ accreditation for plant operatives	28	67
Construction management NVQs	106	70
Sponsorships	89	102
Graduate schemes	267	220
Total	**1,031**	**864**

267 **Graduate schemes**

213 **Craft apprenticeships**

KIER REGIONAL – CLIENT SATISFACTION TREND (ROLLING 12-MONTH SCORES)



Overview of rolling 12-month average trends for sections: Product, Service and Perception of Kier for Kier Regional

All three indicators are now meeting the targets set at 8.3 and have continued to trend upwards during the year. A target of 8.5 has been set for 2010.

KEY AREAS OF GROUP SUPPORT FOR CHARITABLE CAUSES (£000s)

	2009	2008
Education	21	6
Sport	31	17
Wider community events	199	147
Employee sponsored challenges	15	6
Direct support for needy	38	41
Other	50	35
Total	**354**	**252**

Some of the notable charities supported by Group businesses and individuals included Cancer Research, Children in Need, Macmillan Cancer Support, NSPCC, Comic Relief, Race For Life and the British Heart Foundation.

CONSIDERATE CONSTRUCTORS SCHEME DATA FOR THE YEAR TO JUNE 2009**

Order by performance (out of 5.0) Category	Third Quarter 2008	Fourth Quarter 2008	First Quarter 2009	Second Quarter 2009
1 Safety	4.23	4.26	4.30	4.29
2 Considerate	4.16	4.26	4.26	4.27
3 A good neighbour	4.18	4.26	4.24	4.27
4 Cleanliness	4.16	4.17	4.22	4.24
5 Environment	4.18	4.15	4.22	4.22
6 Responsible	4.16	4.18	4.14	4.24
7 Respectful	4.11	4.12	4.21	4.24
8 Accountable	4.11	4.15	4.25	4.17
Overall average per quarter (out of 40.0)	**33.28**	**33.52**	**33.84**	**33.92**

National CCS Awards

Gold	**3**
Silver	**10**
Bronze	**8**

(**See graph on page 34)

FINANCIAL REVIEW

Deena Mattar Finance Director

Net cash
(at 30 June 2009)

£92.5m
(2008: £143.9m)

Dividend per share

55.0p
(2008: 55.0p)

Accounting policies

The Group's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. There have been no changes in accounting policies during the year.

Underlying profit before tax and exceptional items

Underlying profit before tax and exceptional items reduced by 41.9% to £50.6m (2008: £87.1m). This is stated after deducting joint venture tax of £0.3m (2008: £1.1m) and before minority interests of £0.8m (2008: £1.0m). 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.

Exceptional items

Exceptional items amounting to a charge of £27.3m, before tax, were incurred in the year as follows:

	£m
Pension credit arising from changes to the salary-related section of the Kier Group Pension Scheme	24.3
Redundancy and reorganisation costs associated with our Partnership Homes division	(1.8)
Provisions against land and work in progress	
Partnership Homes	(42.5)
Developments	(7.3)
Total exceptional items	(27.3)

The £24.3m credit to the income statement and corresponding improvement in the funding position of the Scheme has arisen as a result of a restriction on future pensionable salary increases for active members in the final salary section of the Kier Group Pension Scheme to the lower of actual pay increases and the annual rate of increase in RPI.

The exceptional costs relating to the restructuring of the Partnership Homes division include the cost of consolidating our private development business and social housing contracting business into one. We have also reviewed the carrying value of land and work in progress as at 30 June 2009 and, given further deterioration in house prices in the second half of the financial year together with the decision to re-plan certain sites, we have written down our residential land by £42.5m. This brings our land write-downs to a total of £69.1m and represents around 23% of the original book value of the land bank. We have also reviewed the carrying values of our property development portfolio and have taken write-downs of £7.3m, £2.0m of which relates to our wholly owned business and £5.3m relates to properties held in our joint venture with the Bank of Scotland.

Taxation

The Group's effective tax rate, including joint venture tax on joint venture profits is in line with last year at 28% which is also the statutory rate.

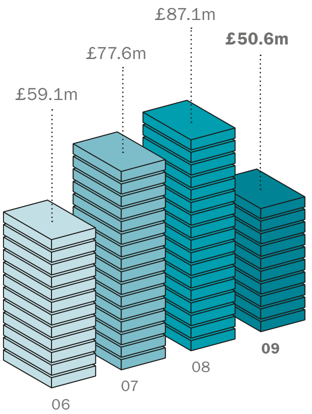
Interest and cash

The net interest paid for the year comprises the following:

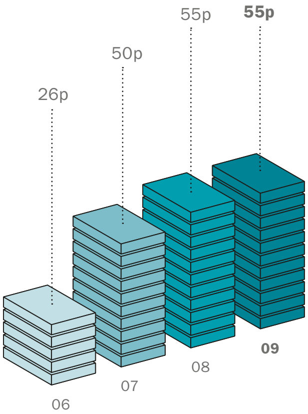
	Year to 30 June 2009 £m	2008 £m
Group interest receivable	5.3	9.8
Interest payable	(2.4)	(2.2)
Unwinding of discount	(2.4)	(4.3)
Share of joint venture interest	(0.7)	(2.4)
	(0.2)	0.9

United Kingdom Supreme Court
The renovation of the Middlesex Guildhall, Parliament Square, to deliver the new United Kingdom Supreme Court for the Ministry of Justice was spearheaded by Kier Group's development arm, Kier Property. Kier Wallis, the Group's historic building refurbishment specialist, acted as main contractor for the project while Kier Engineering Services, part of Kier Support Services, provided structural engineering technical support.

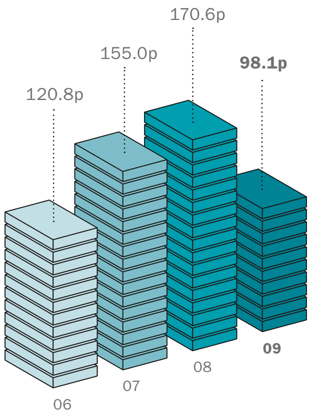
Profit before tax
(before exceptional items)



Dividend per share



Earnings per share
(before exceptional items)



The Group interest receivable includes that arising from average treasury balances of £36m for the year (2008: £95m). The charge of £2.4m relating to unwinding of discounts includes £2.1m relating to land creditor balances (2008: £3.1m).

Net cash at 30 June 2009 was £92.5m (2008: £143.9m) after deducting £30.2m relating to loan notes. £7.5m (2008: £56.6m) was generated from operations during the year after deducting £8.0m (2008: £6.0m) in respect of special pension contributions made during the year.

Cash, net of debt, at 30 June 2009 includes £46.7m (2008: £44.9m) of cash which is not generally available for Group purposes, including that held by joint arrangements, overseas and other cash that cannot be offset against other Group bank balances. 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 of £110.0m comprising £12.5m of overdraft facilities and £97.5m of committed, revolving credit facilities all on an unsecured basis. £5.0m of this expires in January 2010 and £92.5m expires in January 2011.

Treasury policy and risk management

The Group has bank facilities amounting to £110m and long-term debt of £30m managed by the centralised treasury function.

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

FINANCIAL REVIEW
CONTINUED

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
The balance sheet at 30 June 2009 includes intangible assets of £11.2m of which £6.0m relates to building maintenance contracts.

Total equity has reduced during the year to £92.5m (2008: £183.1m) largely as a result of an increase in the pension deficit and other reserve movements.

Inventories
An analysis of inventories is given below:

	As at 30 June 2009 £m	2008 £m
Residential land	230.5	276.0
Residential work in progress	134.9	161.7
Property land and work in progress	21.3	24.8
Other work in progress	37.6	53.9
	424.3	516.4

The Group conducted a review of the carrying value of its housebuilding land at 30 June 2009 in accordance with normal practice and accounting standards. The review was carried out on a site-by-site basis using appraisals incorporating forecast sales rates and selling prices that reflect trading conditions paying particular attention to sites with low sales rates. As a result we recognised an impairment of the housing land bank of £42.5m as at 30 June 2009. When coupled with the impairment taken in the year to 30 June 2008, the land bank has been written down by a total of £69.1m over two years representing 23% of our land value.

The Group also reviewed the land and work in progress held within its Property business taking into account the marketplace and in particular reducing rents which identified the need for an impairment of £5.3m (our share) in our joint venture business and £2.0m in our wholly owned business.

Pensions
The Group participates in two principal schemes, the Kier Group Pension Scheme, which includes a defined benefit section, and a local government scheme on behalf of its employees in Kier Sheffield LLP. The financial statements reflect the pension schemes' deficits calculated in accordance with IAS 19. At 30 June 2009 the net deficit under the Kier Group Pension Scheme was £69.2m (2008: £32.9m). The market value of the scheme's assets was £498.4m (2008: £538.4m) and the net present value of the liabilities was £594.5m (2008: £584.1m). The reduction in the scheme's assets is owing to a reduction in the value of our hedging instruments, together with a fall in equity values whilst the increase in the liabilities is largely owing to a reduction in the discount rate to 6.2% (2008: 6.7%).

Liabilities are stated after taking into account a £24.3m curtailment as a result of the Board's decision to restrict future pensionable salary increases for active members in the final salary section of the Kier Group Pension Scheme to the lower of actual pay increases and the annual rate of increase in RPI. Earlier valuations assumed that salaries would increase at 1.5% above the rate of increase in RPI and, therefore, the change in basis reduces liabilities and, importantly, reduces volatility in the scheme liabilities in the future. The £24.3m reduction in liabilities is shown as an exceptional credit to the income statement.

We have been addressing the issue of pensions over a period of several years and in the last four years have contributed £68.5m in special contributions including £8.0m during the year to 30 June 2009 (2008: £6.0m). The special contributions have no effect on the income statement for the year, but are shown as a reduction in cash and a reduction in the pension deficit.

Under the scheme relating to Kier Sheffield LLP there was a net deficit of £13.4m at 30 June 2009 (2008: £0.7m).

Pension charges of £10.4m (before the exceptional credit of £24.3m) (2008: £7.6m) have been made to the income statement in accordance with IAS 19.

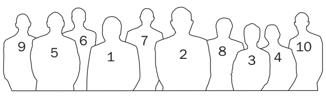
Deena Mattar
Finance Director

BUSINESS RISKS

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

- **Macro-economic climate risk:** The order books for our Construction and Support Services divisions are dependent upon the level of spend in the public sector and the availability of credit for private sector expenditure. The Group has created a structure to manage and mitigate this risk with the following key components:
  - a wide geographic regional network of offices across the UK providing strong integration in local communities, our client base and our supply chain
  - a strong level of framework agreements and partnerships with government, local authorities and private sector
  - an ability to react to evolving opportunities in the marketplace and to maintain a focus on cost reduction and efficiency.
- **Contract and build risk:** We carry out several hundred contracts annually and the risks to which the Group is exposed are dependent upon the nature of the work, the duration of the contract and the legal form of the contract. The Group's appetite for very long-term, large, competitively tendered construction contracts is limited, driven by the desire to manage risk. Tenders for contracts are subject to approval by the Board, chief executive and finance director or divisional directors depending on the value and nature of the contract. Contracts in progress are controlled and managed through the Group's operating structure and procedures including rigorous and regular review of forecast revenue and costs to complete.
- **Land acquisition risk:** The cost and quality of land is fundamental to the profitability of a housing development business. Site evaluation is a key process and site appraisals are carried out in detail including external advice where appropriate. Land acquisitions are subject to approval by the Board, chief executive and finance director or divisional directors depending on the value and nature of the contract. Developments in progress are controlled and managed through the Group's operating structure and procedures including rigorous and regular review of forecast revenue and costs to complete.
- **The housing market:** Our ability to sell houses depends on the demand for housing which, in turn, is linked to consumer sentiment. We manage the exposure by ensuring that we closely control levels of work in progress to match the level of demand. Prices and incentives are reviewed regularly and adjusted as appropriate.
- **Property development risk:** Similar to housing land acquisition, acquiring the right property at the right price is fundamental to the profitability of the Property division. The division controls its development risk by commencing construction generally when it has either pre-sold or pre-let the development. Board approvals are required depending upon the value and nature of the development.
- **Investment risk:** The Group is selective in the PFI projects for which it bids, primarily concentrating on the sectors where we have established construction expertise.
- **People:** People are the key to this business and good people are a scarce resource. It is important that we attract the best, look after them and retain them. Health & safety is a key feature and we have rigorous health and safety policies aimed at minimising health and safety incidents that may affect any staff, subcontractors and members of the public coming into contact with our business activities.
- **Pension scheme deficit:** The pension scheme liabilities and assets are subject to market movements and, although a long-term issue, regulations require us to respond to these long-term issues over the short term. Steps have been taken to eradicate our calculated deficit over a timeframe agreed with the scheme trustees.
- **Counterparty risk:** The Group depends for its success on the stability of its customers, suppliers, funders, bondsmen and insurers. Considerable efforts are made to assess the financial strength of counterparties before entering into contract and to structure payments so as to mitigate our financial exposure to them for the duration of our relationship. Where the Group is particularly dependent on the continued financial strength of the providers of key financial services to the Group, we take steps to spread this exposure across a range of counterparties so as to diversify the risk.

BOARD OF DIRECTORS



1 Phil White CBE
NON-EXECUTIVE CHAIRMAN
Aged 60, was appointed non-executive chairman of the Group in November 2007 having joined as non-executive director in July 2006. He served as chief executive of National Express Group plc from January 1997 to September 2006. He is a chartered accountant and has extensive experience of both listed and private companies. He is currently chairman of Lookers plc and Unite Group plc. He is chairman of the Nomination Committee and a member of the Remuneration Committee.

2 John Dodds
CHIEF EXECUTIVE
Aged 64, 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. He was a member of the Board which led the employee buy-out of Kier from Hanson in 1992 and then the flotation of Kier Group plc in 1996. He holds the position of director with overall responsibility for safety, health and environmental matters and is a member of the Nomination Committee.

3 Deena Mattar
FINANCE DIRECTOR
Aged 44, was appointed to the Board as an executive director in September 2001. She joined Kier in 1998 from KPMG where she developed an in-depth knowledge of construction. She held the role of finance director of the Group's major projects construction arm until July 2001 and was appointed Group finance director in November 2001.

4 Dick Simkin
Aged 61, joined the Group in 1989 and has made a significant contribution to strengthening Kier's presence in the property sector. He played a key part in the Group's acquisition of Laing Property in 2002 and was appointed to the Board in January 2003 as director responsible for the Group's Property division. In July 2008 he took on the additional responsibility for Kier Project Investment and the new business stream Kier Asset Partnership Services, both of which are now, with Kier Property, part of the Developments division.

5 Ian Lawson
Aged 52, rejoined the Group in November 2000 as managing director of the Group's Infrastructure Investment operations. His knowledge of major overseas and UK contracting was established early in his career within the Group. He has served on both the Kier Regional board as well as the Support Services board. In October 2005 he was appointed main board director responsible for Support Services and in July 2008 his responsibilities were extended to include the Partnership Homes division, embracing both the private and affordable housing businesses.

6 Paul Sheffield
Aged 48, joined the Group as a graduate engineer in 1983. He has extensive knowledge of both UK and overseas contracting and was appointed managing director of Kier Construction in 2001, chairman of Kier Construction in 2003 and joined the Kier Regional board in 2004. He was appointed to the Board in October 2005 with responsibility

for the Group's infrastructure and overseas businesses. In November 2008 he assumed responsibility for the whole Construction division.

7 Simon Leathes

NON-EXECUTIVE

Aged 61, was vice chairman for support services at Barclays Capital, the investment banking division of Barclays PLC, from January 2001 to December 2006. He previously held senior appointments at Lend Lease Corporation, Hambros PLC and SG Warburg Group plc. He has various roles as director or adviser of companies, pension funds and charitable institutions. In February 2009 he was appointed chairman of the trustees of the Kier Group Pension Scheme. 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.

8 Chris Geoghegan

NON-EXECUTIVE

Aged 55, was appointed to the Board in July 2007. Previously chief operating officer of BAE Systems plc, now chairman of Hampson Industries PLC and non-executive director of Volex Group plc and SIG plc, he is a Fellow of the Royal Aeronautical Society and a past president of the Society of British Aerospace Companies. He is senior independent director, chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

9 Nick Winser

NON-EXECUTIVE

Aged 49, was appointed to the Board in March 2009. He joined the Board of National Grid in April 2003 as group director responsible for UK and US transmission operations. He was previously chief operating officer of US transmission for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming director of engineering in 2001. Prior to this, he had been with PowerGen since 1991 as principal negotiator on commercial matters, having joined the Central Electricity Generating Board in 1983 where he served in a variety of technical engineering roles. He is a member of the Audit, Nomination and Remuneration Committees.

10 Matthew Barton

COMPANY SECRETARY

Aged 35, joined the Group in September 2004 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 general counsel, has oversight of the Group's legal affairs.

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FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 30 June 2009.

Principal activities and business review

The Group's principal activities are construction, support services, private and affordable residential development, commercial property development and infrastructure project investment.

A review of the Group's business and progress is given within the operating and financial review on pages 4 to 41.

Results and dividends

The Group profit for the year after taxation and exceptional items was £16.9m (2008: £48.2m).

An interim dividend of 18p per share (2008: 18p) amounting to £6.6m (2008: £6.5m) was paid on 1 May 2009. The directors propose a final dividend of 37p per share (2008: 37p per share) amounting to £13.6m (2008: £13.5m) payable on 27 November 2009 to shareholders on the Register of Members at the close of business on 25 September 2009.

Share capital

Details of shares allotted by the Company during the year appear in note 22 of the consolidated financial statements.

Directors

The business of the Company is managed by the board of directors, subject to the provisions of its memorandum and articles of association and applicable law and regulation.

The directors of the Company as at 16 September 2009 are shown on pages 42 and 43. Mr N P Winser was appointed on 1 March 2009; all of the other directors were directors throughout the year. Mr R W Side retired from the Board on 8 November 2008.

At the forthcoming annual general meeting resolutions will be proposed for the re-election of Miss D E Mattar, Mr M P Sheffield and Mr P M White. Mr N P Winser will be proposed for election for the first time. At that date, the unexpired term of the contract of employment with the Company of each of the executive directors will be 12 months.

The articles of association of the Company provide that directors may be elected and removed from office by ordinary resolution. The board may also appoint directors, subject to their holding office only until the next general meeting, whereupon they shall be eligible for election by ordinary resolution.

Details of directors' interests are disclosed in the directors' remuneration report on pages 50 to 53.

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 and the Company has entered into deeds of indemnity with its directors entitling them to be indemnified to the extent permitted by statute.

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 voting rights

At 14 September 2009 the Company had been notified of the following interests in the ordinary share capital of the Company:

Standard Life Investments Limited	13.6%
Legal & General Plc and its subsidiaries	4.9%
Barclays Global Investors	3.2%
Norges Bank	3.0%

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 Group 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 which comprises a share matching element.

Combined Code

A statement on corporate governance is set out on pages 47 to 49.

Going concern basis

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

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

Donations

Group donations to charity in the United Kingdom were £64,000 (2008: £72,000). In addition the Group has considerable involvement in the community as set out in the corporate responsibility report on pages 33 to 37. No political donations were made (2008: nil).

DIRECTORS' REPORT
CONTINUED

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 (2008: nil).

Subsidiary trading companies within the Group, acting in accordance with the above policy, exhibit creditor days averaging 34 (2008: 28) in respect of suppliers of invoiced goods and services and 16 (2008: 18) in respect of certified amounts due to subcontractors. These figures exclude amounts not currently due for payment but included within trade creditors.

Financial instruments
Details of the financial risk management objectives and policies of the Group along with its exposure to material financial risks are set out in notes 1 and 26 of the consolidated financial statements.

Auditors
In accordance with Section 489 of the Companies Act 2006 a resolution for the reappointment of the auditors, KPMG Audit Plc (KPMG), will be proposed at the forthcoming annual general meeting. The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed on behalf of the Board.

M D Barton
Secretary

16 September 2009
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 issued in June 2008 and has complied with it throughout the year except as explained below.

Independent non-executive directors comprise less than half of the Board. During the course of the year Mr R W Side retired as an executive director and no additional executive director was appointed in his place, nor is any such appointment anticipated. Furthermore, Mr N P Winser was appointed as an additional independent non-executive director on 1 March 2009. The Board balance has therefore moved closer to Code provisions during the course of the year. Notwithstanding this, the Company maintains its view that given the structure of the Group it is important that each division is represented at executive level on the Board. It is also felt that to increase the number of independent non-executives to a level where parity was attained would lead to an unduly large and unwieldy board, without delivering any tangible benefit to shareholders. For these reasons the Company continues to believe that whilst the current board structure does not comply with the Code, it is satisfactorily balanced in practice, with the independent non-executives having a substantial presence in board debate.

Until 1 March 2009 neither the Remuneration Committee nor the Audit Committee comprised three independent non-executive directors, nor were the majority of members of the Nomination Committee independent non-executive directors. This was addressed on 1 March 2009 with the appointment of Mr N P Winser as an independent non-executive director and his concurrent appointment to the Remuneration, Audit and Nomination Committees.

Board of directors

The Board of Kier Group plc is responsible to its shareholders for the success of the Company. It sets the strategic and financial policies of the Group, monitors and reviews business performance and controls risk. As part of the Group's organisational structure (described on page 49 under 'Internal control') the Board has put in place standing orders which are designed to ensure the provision to it of relevant information on a timely basis, which set authorisation limits and which reserve certain matters for the Board or its committees, including:

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

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

- the Group's budgets, strategy, structure and financial requirements;
- the full and interim reports and accounts (taking into account the views of the Audit Committee);
- interim management statements;
- the Group's final salary pension scheme;
- the implications of and proper approach to the issues with the Castlepoint Shopping Centre car park, Bournemouth;
- potential acquisitions;
- the implications of prevailing economic conditions and the appropriate response to them;
- material operational opportunities;
- health & safety strategies and particular issues as they arose;
- the investigation by the Office of Fair Trading into alleged cover pricing by a Group company; and
- presentations as to strategic issues from the senior management of a number of the divisions.

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

The chief executive is Mr J Dodds who is responsible for the operational management of the Group and is accountable to the Board for the implementation of the Group's strategy. In order to facilitate this, the chief executive meets monthly with a management committee comprising the other executive directors and he also chairs monthly management meetings with each of the divisions. He is the director responsible for human resource matters and health & safety and meets regularly with the director of safety, health & environment.

The senior non-executive director is Mr C V Geoghegan.

Biographical details of all the directors are set out on pages 42 and 43. The Board considers Mr C V Geoghegan, Mr S W Leathes, and Mr N P Winser to be independent.

A table of attendance of directors at meetings of the Board and its various committees is set out on page 48. In addition to these meetings, the full Board attends a number of away-days annually which focus on strategy, material issues facing the Group and succession planning. Outside of the formal schedule of meetings, the non-executive directors met without the executive directors a number of times during the year.

All directors have access to the advice and services of the company secretary and the directors are able to seek independent professional advice if necessary at the Company's expense. Training is available for new directors and subsequently as necessary. All directors are subject to election by shareholders at the first annual general meeting

CORPORATE GOVERNANCE STATEMENT
CONTINUED

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.

The Remuneration Committee and Board encourage directors and staff at all levels to acquire shares in the Company and to hold them for the longer term. This sense of ownership is an important element of Kier's culture and of its focus on long-term performance. As far as possible the Group prefers to promote individuals from within.

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

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

Audit Committee
The Audit Committee comprises the three independent non-executive directors under the chairmanship of Mr S W Leathes, a chartered accountant with recent and relevant financial experience. The Committee met twice during the year in September and February. (The meeting normally held in June was held in July). These Committee meetings were also attended by the finance director and the head of internal audit. The KPMG audit engagement director attended these meetings. The chairman and executive directors were also invited to attend the meetings. The Committee also met with KPMG without management being present.

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

At each of its meetings the Committee received and reviewed a report from the head of internal audit which highlighted the 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 Committee also met regularly with the head of internal audit and the Committee has met with the head of internal audit without management being present. The Committee has carried out a review of the effectiveness of the internal audit function.

The Committee is responsible for monitoring the independence and objectivity of KPMG, the external 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 February 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 3 to the consolidated financial statements. The provision of non-audit services, other than tax compliance and routine taxation advice, must be referred to and agreed by the Committee over a predetermined cost threshold and any work costed below that threshold must be pre-approved by the Group finance director.

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 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 chairman and the three independent non-executive directors, under the chairmanship of Mr C V Geoghegan.

Information about the workings of this Committee is contained in the directors' remuneration report on page 50. 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, making recommendations to the Board on new Board appointments and succession planning. The Committee met twice during the year. The Committee's terms of reference are available on the Company's website.

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

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

[1] Mr R W Side retired from the Board on 8 November 2008

[2] Mr N P Winser was appointed to the Board on 1 March 2009

Internal control

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

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

- an established management structure operating throughout the Group with clearly defined levels of responsibility and delegation of authority;

- clearly defined operating guidelines and procedures with authorisation limits set at appropriate levels. These are set out in the Group and divisional standing orders;

- a comprehensive budgeting and forecasting system in place which is regularly reviewed and updated;

- a formal quarterly review of each division's year-end forecast, business performance, risk and internal control matters which is carried out by the directors of each division with the chief executive and finance director in attendance;

- monthly management reporting including regular comparison of actual results against latest forecasts;

- established policies and procedures governing the Group's investment in land, property and other significant assets, including acquisitions and disposals. These include detailed appraisals, appropriate authorisation levels and Board approval depending on value or perceived exposure;

- investment decisions, including Private Finance Initiative (PFI) projects and tenders for contracts being subject to approval by the Board, the chief executive and finance director or divisional directors depending on the value and nature of the investment or contract. Individual tender and project review procedures are in place prior to bidding and before contract award;

- internal audits carried out to assess the adequacy and effectiveness of internal controls. The scope of the internal audit work is planned to cover the key risks faced by the business and 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 which are in place for each business unit highlighting key risks facing that business together with an assessment of the effectiveness of controls to mitigate those risks. The risk registers are updated regularly and at 31 March;

- an annual process of risk and control self assessment whereby all operating companies are required to review and confirm that appropriate internal controls are in place and operating effectively across the key risk areas identified in individual company risk registers. This assessment was carried out on 31 March 2009 and the findings reviewed by the Audit Committee;

- regular monitoring, review and reporting of safety, health and environmental matters; and

- the provision of a confidential method of reporting any suspected fraud or other misfeasance to the head of internal audit.

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

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

Relations with shareholders

The Board uses the annual general meeting to communicate with shareholders and encourages their attendance and participation. The chairmen of the Audit Committee and the Remuneration Committee are available to answer questions from shareholders. The Group also maintains a regular dialogue with institutional investors to assist in the understanding of the Group's objectives and the Company has a programme of regular communication with investors, analysts and brokers. Presentations are made to investors, analysts and 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 Company's website 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 of independent non-executive directors and the chairman who was considered independent upon his appointment. The following directors were members of the Committee for the year ended 30 June 2009:

C V Geoghegan (chairman)
S W Leathes
P M White
N P Winser (appointed 1 March 2009)

The secretary of the Committee is Mr M D Barton, company secretary.

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 chief executive concerning its proposals (except in relation to his own remuneration) and takes external professional advice as appropriate. In respect of the year ended 30 June 2009 the Committee appointed Kepler Associates as its independent remuneration advisors. Kepler Associates 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 remuneration received by each of the directors, together with details of share interests and pension benefits, are set out on pages 51 to 53.

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 and the individual's responsibilities, experience and performance. Salaries are reviewed annually.

Benefits in kind

Benefits in kind comprise membership of private health insurance, 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 75% for the year ended 30 June 2009) 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 Kier Group Pension Scheme which has both a defined benefit section and a defined contribution plan.

Executive directors in the defined benefits section accrue pension up to the value of the lifetime allowance. Where the value of pension exceeds the lifetime allowance, future pension accrual ceases and executive directors receive a pension allowance of 20% of salary.

Only the basic salary of directors is pensionable. Details of individual directors' pension arrangements are shown in a separate table on page 52.

Long-term incentives

Under the Kier Group 1999 LTIP, approved by shareholders, directors can receive awards of shares worth up to 100% of salary per annum. Awards granted in the year to 30 June 2009 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 at least 15% per annum (the maximum target) over the relevant three-year period;
- no awards will vest unless earnings per share over the same period increase by at least 5% per annum (the base target) at which point 25% of the award will vest;
- 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; and
- no account shall be taken of inflation in calculating earnings per share growth.

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

23.4% of executive directors' remuneration for the year ended 30 June 2009 was represented by the vesting under the LTIP on the basis of the share values at the time of the vesting. This award related to the performance of earnings per share for the three years ended 30 June 2008.

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.

Service contracts

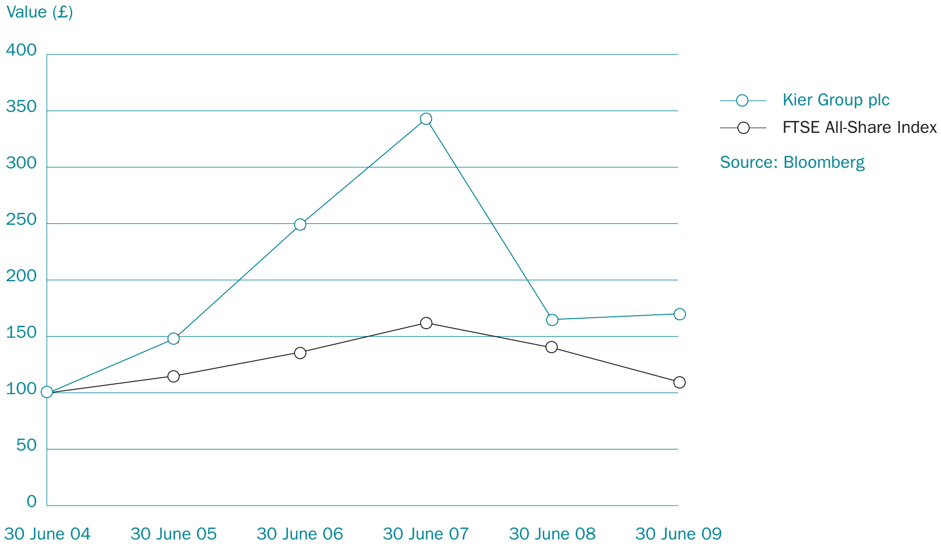
The Company has service agreements with its executive directors which have a notice period of one year although there is a duty to mitigate in the event of termination. As stated in the corporate governance statement, executive directors are required to seek approval from the Board before accepting any external non-executive positions. Any emoluments arising from such positions are taken into account by the Remuneration Committee. Currently no paid external non-executive positions are held by executive directors.

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 the non-executive directors, all of which are terminable on no more than 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.



The graph shows the value, by 30 June 2009, of £100 invested in Kier Group plc on 30 June 2004 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 51 to 53 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 2009 was as follows:

	Salary & fees £000	Pension supplement £000	Benefits £000	Bonus £000	**Total 2009 £000**	Total 2008 £000
P M White	144	–	–	–	**144**	84
J Dodds[1]	514	103	20	160	**797**	659
C V Geoghegan	49	–	–	–	**49**	40
I M Lawson	280	–	21	96	**397**	307
S W Leathes	61	–	–	–	**61**	40
D E Mattar	305	–	23	102	**430**	367
M P Sheffield	280	–	15	96	**391**	303
R W Side[1] (retired 8 November 2008)	106	21	5	–	**132**	440
R W Simkin	287	–	16	96	**399**	334
N P Winser (appointed 1 March 2009)	14	–	–	–	**14**	–
M O'Farrell	–	–	–	–	**–**	539
P T Warry	–	–	–	–	**–**	172
	2,040	**124**	**100**	**550**	**2,814**	3,285

[1] The pension-related salary supplement is explained below in the pensions section

[2] Emoluments received by Mr S W Leathes include £14,000 paid in respect of his position as chairman of the trustees of the Kier Group Pension Scheme

DIRECTORS' REMUNERATION REPORT
CONTINUED

Directors' pensions

Pension benefits earned by the directors during the year as members of the defined benefit section of the Kier Group Pension Scheme 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 2009 £000	Transfer value of accrued pension at 30 June 2008 £000	Increase in transfer value[2] £000	Transfer value of accrued pension at 30 June 2009 £000
J Dodds[3]	17	8	149	203	3,748	301	4,049
I M Lawson	14	12	175	54	542	204	746
D E Mattar	15	13	133	68	594	118	712
M P Sheffield	28	23	290	120	1,008	369	1,377
R W Simkin	16	12	239	101	1,662	432	2,094

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

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

[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

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

Directors' interests

The directors of the Company at 30 June 2009 had the following beneficial interest (including interests of dependent family members) in the ordinary shares of the Company:

	30 June 2009	1 July 2008 (or date of appointment)
P M White (chairman)	**2,540**	2,540
J Dodds (chief executive)[1]	**434,764**	412,163
C V Geoghegan (non-executive)	**5,000**	5,000
I M Lawson	**19,228**	11,969
S W Leathes (non-executive)	**10,000**	10,000
D E Mattar[1]	**434,764**	412,163
M P Sheffield	**35,012**	27,747
R W Simkin	**313,004**	304,409
N P Winser[2] (non-executive)	**2,000**	–

[1] The Listing Rules require that the interests of Mr J Dodds and Miss D E Mattar are aggregated as each is a connected person of the other by virtue of marriage. Their individual interests are: Mr J Dodds 332,844 ordinary shares (2008: 319,715) and Miss D E Mattar 101,920 ordinary shares (2008: 92,448)

[2] The opening position of the interests of Mr N P Winser is shown at 1 March 2009, being the date of his appointment

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 525,837 (2008: 654,137) ordinary shares with a nominal value of £5,258 (2008: £6,541) representing 1.41% of the called up share capital of the Company, held by the Trust.

At 15 September 2009 the following directors had acquired beneficial interests in further ordinary shares: Mr J Dodds, 57 shares; Mr I M Lawson, 57 shares and Miss D E Mattar, 57 shares. There had been no changes in the interests of the other directors since 30 June 2009.

Directors' interests continued

Directors' share options

Mr I M Lawson and Mr M P Sheffield each hold 1,220 Sharesave Scheme options granted on 17 April 2009 at an exercise price £7.50 per share. The Sharesave scheme options are, as for all company employees under the scheme, not subject to a performance condition. The options are exercisable between 1 July 2012 and 1 January 2013.

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:

	2007 award	2008 award	2009 award	Cumulative Total 30 June 2009	Cumulative Total 30 June 2008
J Dodds	21,786	22,681	68,589	113,056	69,114
I M Lawson	10,416	10,711	34,871	55,998	33,803
D E Mattar	12,731	12,853	37,051	62,635	43,189
M P Sheffield	10,416	10,711	34,871	55,998	33,803
R W Simkin	11,805	11,996	34,871	58,672	40,350
Date of award	2 October 2006	16 October 2007	17 November 2008		
Share price	1,836p	1,984p	780p		
End of performance period	30 June 2009	30 June 2010	30 June 2011		

For the 2007 and 2008 awards, 25% of the award vests if earnings per share grow 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 2009 award 25% of the award vests on 5% per annum nominal earnings per share growth, increasing on a sliding scale to 100% vesting if nominal earnings per share growth is at least 15%.

For the three-year period ended 30 June 2008 earnings per share increased by 17.9% per annum in excess of inflation. Accordingly the directors received 88.03% of the 2006 award (granted on 3 October 2005 when the share price was 1,065p) 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 2006 award of the LTIP, together with the cash element received, were:

	2006 award number	Shares lapsed number	Shares vested number	Received as shares number	Market price pence	Received as cash £	Total LTIP award £
J Dodds	24,647	2,950	21,697	12,801	870	77,395	188,764
I M Lawson	12,676	1,517	11,159	6,584	870	39,803	97,083
D E Mattar	17,605	2,107	15,498	9,144	870	55,280	134,833
M P Sheffield	12,676	1,517	11,159	6,584	870	39,803	97,083
R W Side	17,605	2,107	15,498	9,144	870	55,280	134,833
R W Simkin	16,549	1,981	14,568	8,595	870	51,965	126,742
							779,338
						2008:	2,316,811

There was no growth in earnings per share for the three-year period ended 30 June 2009. Accordingly the 2007 award will not vest.

Approval of report

Mr C V Geoghegan, chairman of the Remuneration Committee, will attend the forthcoming annual general meeting and will be available to answer any questions shareholders may have concerning the Group's policy on directors' remuneration. The directors' remuneration report will be submitted for approval by the Company at the forthcoming annual general meeting.

Signed on behalf of the Board

C V Geoghegan
Chairman Remuneration Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

Signed on behalf of the Board

J Dodds
D E Mattar
Directors

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KIER GROUP PLC

We have audited the financial statements of Kier Group plc for the year ended 30 June 2009 set out on pages 56 to 93. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards as adopted by the EU (IFRS). The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 54, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 45, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Stephen Wardell (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London EC4Y 8BB
16 September 2009

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 Before exceptional items £m	2009 Exceptional items* £m	2009 Total £m	2008 Before exceptional items £m	2008 Exceptional items* £m	2008 Total £m
Revenue							
Group and share of joint ventures	2	**2,145.6**	**–**	**2,145.6**	2,374.2	–	2,374.2
Less share of joint ventures		**(33.7)**	**–**	**(33.7)**	(41.8)	–	(41.8)
Group revenue		**2,111.9**	**–**	**2,111.9**	2,332.4	–	2,332.4
Cost of sales		**(1,925.1)**	**(44.5)**	**(1,969.6)**	(2,122.1)	(28.1)	(2,150.2)
Gross profit		**186.8**	**(44.5)**	**142.3**	210.3	(28.1)	182.2
Administrative expenses		**(136.7)**	**(1.8)**	**(138.5)**	(127.4)	(9.5)	(136.9)
Curtailment credit on retirement benefit obligation		**–**	**24.3**	**24.3**	–	–	–
Share of post tax results of joint ventures	14	**–**	**(3.8)**	**(3.8)**	0.9	(2.3)	(1.4)
Profit on disposal of joint venture		**–**	**–**	**–**	–	16.2	16.2
Profit from operations	2	**50.1**	**(25.8)**	**24.3**	83.8	(23.7)	60.1
Finance income	5	**5.3**	**–**	**5.3**	9.8	–	9.8
Finance cost	5	**(4.8)**	**–**	**(4.8)**	(6.5)	–	(6.5)
Profit before tax	2	**50.6**	**(25.8)**	**24.8**	87.1	(23.7)	63.4
Income tax	9a	**(14.0)**	**6.1**	**(7.9)**	(24.5)	9.3	(15.2)
Profit for the year		**36.6**	**(19.7)**	**16.9**	62.6	(14.4)	48.2
Attributable to:							
Equity holders of the parent		**35.8**	**(19.7)**	**16.1**	61.6	(14.4)	47.2
Minority interests	12	**0.8**	**–**	**0.8**	1.0	–	1.0
		36.6	**(19.7)**	**16.9**	62.6	(14.4)	48.2
Earnings per share	11						
– basic		**98.1p**		**44.1p**	170.6p		130.7p
– diluted		**97.8p**		**44.0p**	169.2p		129.7p
Adjusted earnings per share (excluding the amortisation of intangible assets)	11						
– basic		**102.5p**			174.8p		
– diluted		**102.2p**			173.4p		

*Exceptional items relate to land and work in progress write-downs, restructuring costs, a pensions curtailment credit and the profit on disposal of a joint venture (note 4)

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	**2009 £m**	2008 £m
Foreign exchange translation differences		**0.1**	0.7
Fair value movements in cash flow hedging instruments		**(17.2)**	(6.2)
Actuarial losses on defined benefit pension schemes	8	**(103.2)**	(33.5)
Deferred tax on items recognised directly in equity	9b	**33.7**	11.2
Income and expense recognised directly in equity		**(86.6)**	(27.8)
Profit for the year		**16.9**	48.2
Total recognised income and expense for the year	23	**(69.7)**	20.4
Attributable to:			
Equity holders of the parent		**(70.5)**	19.4
Minority interests		**0.8**	1.0
		(69.7)	20.4

CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2009

	Notes	2009 £m	2008 £m
Non-current assets			
Intangible assets	12	**11.2**	13.4
Property, plant and equipment	13	**86.9**	92.2
Investment in joint ventures	14	**33.6**	39.9
Deferred tax assets	15	**32.1**	13.1
Other financial assets		**–**	0.1
Trade and other receivables	18	**49.0**	17.4
Non-current assets		**212.8**	176.1
Current assets			
Inventories	16	**424.3**	516.4
Other financial assets		**–**	0.9
Trade and other receivables	18	**296.7**	361.3
Income tax receivable		**6.6**	1.9
Cash and cash equivalents	19	**122.7**	174.1
Current assets		**850.3**	1,054.6
Total assets		**1,063.1**	1,230.7
Current liabilities			
Other financial liabilities	26	**(0.6)**	–
Trade and other payables	20	**(769.7)**	(914.2)
Tax liabilities		–	(2.6)
Provisions	21	**(5.9)**	(12.0)
Current liabilities		**(776.2)**	(928.8)
Non-current liabilities			
Long-term borrowings	19	**(30.2)**	(30.2)
Other financial liabilities	26	**(0.3)**	–
Trade and other payables	20	**(13.4)**	(13.5)
Retirement benefit obligations	8	**(114.7)**	(46.7)
Provisions	21	**(32.3)**	(21.9)
Deferred tax liabilities	15	**(3.5)**	(6.5)
Non-current liabilities		**(194.4)**	(118.8)
Total liabilities		**(970.6)**	(1,047.6)
Net assets	2	**92.5**	183.1
Equity			
Share capital	22	**0.4**	0.4
Share premium	23	**36.1**	34.4
Capital redemption reserve	23	**2.7**	2.7
Retained earnings	23	**62.3**	142.0
Cash flow hedge reserve	23	**(9.8)**	2.6
Translation reserve	23	**0.2**	0.1
Equity attributable to equity holders of the parent		**91.9**	182.2
Minority interests	12	**0.6**	0.9
Total equity		**92.5**	183.1

The financial statements were approved by the Board of directors on 16 September 2009 and were signed on its behalf by:

J Dodds
D E Mattar
Directors

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 £m	2008 £m
Cash flows from operating activities			
Profit before tax		**24.8**	63.4
Non cash exceptional items			
Restructuring costs		**1.8**	9.5
Land and work in progress write-downs		**48.3**	30.4
Curtailment credit on retirement benefit obligation		**(24.3)**	–
Profit on disposal of joint venture		**–**	(16.2)
Other adjustments			
Share of post tax trading profits from joint ventures	14	**–**	(0.9)
Normal contributions to pension fund in excess of pension charge		**(2.9)**	(4.6)
Share-based payments (credit)/charge	24	**(0.9)**	1.0
Amortisation of intangible assets	12	**2.2**	2.1
Depreciation charges	13	**14.6**	16.4
Profit on disposal of property, plant & equipment		**(1.3)**	(1.0)
Net finance income	5	**(0.5)**	(3.3)
Operating cash flows before movements in working capital		**61.8**	96.8
Special contributions to pension fund		**(8.0)**	(6.0)
Payment of restructuring costs		**(8.3)**	(1.4)
Decrease/(increase) in inventories		**51.4**	(84.3)
Decrease/(increase) in receivables		**33.8**	(48.7)
(Decrease)/increase in payables		**(133.5)**	97.8
Increase in provisions		**10.3**	2.4
Cash inflow from operating activities		**7.5**	56.6
Dividends received from joint ventures	14	**0.4**	0.8
Interest received		**4.8**	9.6
Income taxes paid		**(7.4)**	(18.4)
Net cash generated from operating activities		**5.3**	48.6
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		**4.4**	2.5
Proceeds from sale of joint venture	29b	**–**	13.6
Purchases of property, plant & equipment		**(15.3)**	(27.5)
Acquisition of subsidiaries, including net borrowings acquired	29a	**(14.0)**	(16.5)
Net investment in joint ventures	14	**(9.0)**	(2.9)
Net cash used in investing activities		**(33.9)**	(30.8)
Cash flows from financing activities			
Purchase of own shares		**(0.8)**	(5.5)
Interest paid		**(2.5)**	(2.3)
Dividends paid to equity holders of the parent		**(18.4)**	(13.6)
Dividends paid to minority interests		**(1.1)**	(0.9)
Net cash used in financing activities		**(22.8)**	(22.3)
Decrease in cash and cash equivalents		**(51.4)**	(4.5)
Opening cash and cash equivalents		**174.1**	178.6
Closing cash and cash equivalents		**122.7**	174.1
Reconciliation of net cash flow to movement in net funds			
Decrease in cash and cash equivalents		**(51.4)**	(4.5)
Opening net funds		**143.9**	148.4
Closing net funds		**92.5**	143.9
Net funds consist of:			
Cash and cash equivalents		**122.7**	174.1
Long-term borrowings		**(30.2)**	(30.2)
Net funds	19	**92.5**	143.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

Kier Group plc (the Company) is a company domiciled in the United Kingdom (UK). The consolidated financial statements of the Company for the year ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

The consolidated financial statements were approved by the directors on 16 September 2009.

Statement of compliance

The Group's consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (GAAP). These are presented on pages 90 to 93.

Basis of preparation

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

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

The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year ended 30 June 2009:

IAS I	'Amendments to presentation of financial statements'
IAS 23	'Amendments to borrowing costs'
IAS 27R	'Consolidated and separate financial statements'
IFRS 2	'Amendments to share-based payments: vesting conditions and cancellations'
IFRS 3R	'Business combinations'
IFRS 8	'Operating segments'
IFRIC 12	'Service concession arrangements'
IFRIC 14	'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'.
IFRIC 15	'Agreements for the construction of real estate'

In respect of IFRIC 12 'Service concession arrangements' which was endorsed by the EU in March 2009, the Group has continued to recognise the FRS 5 'Reporting the substance of transactions' finance debtors relating to concession arrangements held by PFI joint ventures at amortised cost as defined by IAS 39 'Financial Instruments: Recognition and Measurement.' The effect of adopting this policy is to maintain the accounting within PFI joint ventures in line with existing UK GAAP (with the exception of the treatment of interest rate derivatives under IAS 39), while ensuring that the accounting treatment complies with existing IFRS. The Group has assessed the impact of adopting the interpretation to be a reduction in the investment in joint ventures and in retaining earnings of £3.2m when it becomes mandatory for the accounting period commencing 1 July 2009.

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

Basis of consolidation

(a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 30 June 2009. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases. The purchase method is used to account for the acquisition of subsidiaries.

(b) Joint ventures

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

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

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

Goodwill and other intangible assets

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Exceptional items

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

Revenue and profit recognition

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

Revenue and profit are recognised as follows:

(a) Construction contracts

Revenue arises from increases in valuations on contracts and includes the Group's share of revenue from joint arrangements, and goods and services provided.

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

Profit on contracts is calculated in accordance with accounting standards and industry practice. The principal estimation technique used by the Group in attributing profit on contracts to a particular period is the preparation of forecasts on a contract by contract basis. These focus on revenues and costs to complete and enable an assessment to be made of the final out-turn on each contract. Consistent contract review procedures are in place in respect of contract forecasting.

The general principles for profit recognition are as follows:

- profits on short duration contracts (generally less than 12 months) are taken when the contract is complete;
- profits on other contracts are recognised on a percentage of completion basis when the contract's outcome can be 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 but only to the extent that there is reasonable assurance of recovery.

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

(b) Support Services

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

(c) Private housing and land sales

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

(d) Property development

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

Where developments are sold in advance of construction being completed, revenue and profit are recognised from the point of sale and as the significant outstanding acts of construction and development are completed.

Pre-contract costs

Costs associated with bidding for contracts are written off as incurred (pre-contract costs). When it is probable that a contract will be awarded, usually when the Group has secured preferred bidder status, 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 PFI or Public Private Partnership (PPP) contracts, external costs are recovered from the special purpose vehicle and pre-contract costs within this recovery that were not previously capitalised are credited to the income statement, except to the extent that the Group retains a share in the special purpose vehicle. The amount not credited is deferred and recognised over the life of the construction contract to which the costs relate.

Property, plant and equipment and depreciation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Employee benefits
(a) Retirement benefit obligations
For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due.

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

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

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

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

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

The cost to the Group of awards to employees under the LTIP scheme is spread on a straight-line basis over the relevant performance criteria period. The scheme awards to senior employees a number of shares which will vest after three years if particular criteria are met. The Group has the option to make the awards either as shares or as a combination of shares and cash based on the share price prevailing when the shares vest. The cost of the share-based payment element of the scheme is based on the fair value of the shares at the date the options are granted, and the cost of the cash-based payment element is based on the market value of the share options at the balance sheet date.

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

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

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

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

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

Infrequently a long-term land creditor arises for a parcel or parcels of land where the Group has exchanged unconditional contracts, and so recognised the creditor and the land inventory, but in practice does not have title or access to the land. In these few cases the notional interest payable already charged to finance costs is then credited to finance costs and added to the cost of inventory in accordance with IAS 23 'Borrowing Costs' and IAS 2 'Inventories'. In no circumstances will the cost of such land inventory exceed the contracted sum payable.

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Foreign currencies

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

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

Mining assets

Opencast expenditure incurred prior to the commencement of operating opencast sites is capitalised and the cost less the residual value is depreciated over the coaling life of the site on a coal extraction basis. The total cost of restoration is recognised as a provision as soon as the mine becomes operational. The amount provided represents the present value of the anticipated costs. Costs are charged against the provision as incurred and the unwinding of the discount is included within interest costs. A tangible asset is created for an amount equivalent to the initial provision and depreciated on a coal extraction basis over the life of the asset. Where there is a subsequent change in the estimate of restoration costs or discount rate, the present value of the change is recognised in the cost of the tangible asset with a corresponding change to the restoration provision. The resulting impact on the unwinding of the discount is recognised in the year of change.

Inventories

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

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

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

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

Finance lease receivables

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

Share capital

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

Provisions

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

Financial instruments

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

(a) Trade receivables and trade payables

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

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

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

(b) Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

Revenue and profit recognition
Details on the estimation techniques used for revenue and profit recognition in respect of private housing and land sales, property development and construction contracts are given on page 61.

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

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

Details of the assumptions used are included in note 8.

2 SEGMENTAL REPORTING

During the year to 30 June 2008 the Group comprised five divisions: Construction, Support Services, Homes, Property and Infrastructure Investment, and it was on this basis that the Group presented its primary segmental information.

To respond positively to changing market conditions the Group was restructured on 1 July 2008, to bring the Group's operations closer together and provide increased efficiencies. The revised structure comprises four divisions: Construction, Support Services, Partnership Homes and Developments.

The changes to the structure are:

- The affordable homes business, Kier Partnership Homes Limited, previously part of the Construction division, has been combined with Kier Homes to form the Partnership Homes division.
- The Property and Infrastructure Investment divisions together with a new business stream, Kier Asset Partnership Services (KAPS), have been combined to form the Developments division. For the year ended 30 June 2008 KAPS was a bidding operation and its costs were included in Support Services.

2 SEGMENTAL REPORTING CONTINUED

These new divisions reflect the revised Group management structure and are the basis on which the Group reports its primary segmental information and the results for the year to 30 June 2008 have been restated accordingly.

The results for Kier Partnership Homes, reallocated from Construction to the Partnership Homes division (formerly Homes), and the cost of KAPS, reallocated from Support Services to Developments, are set out below:

Year to 30 June 2008	Revenue £m	Operating profit £m	Profit before tax £m
Kier Partnership Homes	68.7	1.7	2.2
KAPS	–	(0.6)	(0.6)

Year to 30 June 2009	**Construction £m**	**Support Services £m**	**Partnership Homes £m**	**Developments £m**	**Centre £m**	**Group £m**
Revenue						
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 credit 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)[1]	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	–	–	33.5	–	**33.6**
Other assets	303.1	91.6	401.6	59.7	50.8	**906.8**
Total liabilities	(588.5)	(104.3)	(62.0)	(8.0)	(177.6)	**(940.4)**
Net operating assets/(liabilities)	(285.3)	(12.7)	339.6	85.2	(126.8)	**–**
Cash, net of debt	399.7	36.7	(264.9)	(70.6)	(8.4)	**92.5**
Net assets	**114.4**	**24.0**	**74.7**	**14.6**	**(135.2)**	**92.5**
Other information						
Inter-segmental revenue	23.0	35.4	–	0.2	–	**58.6**
Amortisation of intangible assets	–	2.2	–	–	–	**2.2**
Capital expenditure	6.8	5.7	0.1	0.1	1.8	**14.5**
Depreciation of property, plant and equipment	5.4	7.5	0.5	–	1.2	**14.6**

[1] Interest is (charged)/credited to the divisions at a notional rate of 6.0% and 5.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

2 SEGMENTAL REPORTING CONTINUED

Year to 30 June 2008	Construction £m	Support Services £m	Partnership Homes £m	Developments £m	Centre £m	Group £m
Revenue						
Group and share of joint ventures	1,584.5	393.7	311.5	84.5	–	2,374.2
Less share of joint ventures	(1.2)	–	–	(40.6)	–	(41.8)
Group revenue	1,583.3	393.7	311.5	43.9	–	2,332.4
Profit						
Group operating profit	36.6	14.1	31.9	7.6	(7.3)	82.9
Share of joint ventures' operating profit	–	–	0.3	4.1	–	4.4
Group and share of joint ventures	36.6	14.1	32.2	11.7	(7.3)	87.3
Share of joint ventures – finance cost	–	–	–	(2.4)	–	(2.4)
– tax	–	–	(0.1)	(1.0)	–	(1.1)
Profit from operations before exceptional items	36.6	14.1	32.1	8.3	(7.3)	83.8
Land and work in progress write-downs	–	–	(26.6)	(4.7)	–	(31.3)
Joint venture tax on land and work in progress write-downs	–	–	–	0.9	–	0.9
Restructuring costs	–	–	(9.5)	–	–	(9.5)
Profit on disposal of joint venture	–	–	–	16.2	–	16.2
Profit from operations	36.6	14.1	(4.0)	20.7	(7.3)	60.1
Finance income/(cost)[1]	20.2	0.7	(17.2)	(0.3)	(0.1)	3.3
Profit before tax	56.8	14.8	(21.2)	20.4	(7.4)	63.4
Balance sheet						
Investment in joint ventures	0.1	–	–	39.8	–	39.9
Other assets	363.5	107.8	481.9	32.3	31.2	1,016.7
Total liabilities	(671.9)	(106.1)	(121.3)	(13.5)	(104.6)	(1,017.4)
Net operating assets/(liabilities)	(308.3)	1.7	360.6	58.6	(73.4)	39.2
Cash, net of debt	409.5	17.4	(242.6)	(24.9)	(15.5)	143.9
Net assets	101.2	19.1	118.0	33.7	(88.9)	183.1
Other information						
Inter-segmental revenue	52.6	47.5	–	0.2	–	100.3
Amortisation of intangible assets	–	2.1	–	–	–	2.1
Capital expenditure	8.8	12.4	0.6	–	5.6	27.4
Depreciation of property, plant and equipment	7.6	7.4	0.5	–	0.9	16.4

[1] Interest is (charged)/credited to the divisions at a notional rate of 6.0% and 5.5%

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

As the Group's activities are primarily within the UK, no geographical segmental analysis is required.

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

3 PROFIT FOR THE YEAR

Profit before taxation is stated after charging:

	2009 £m	2008 £m
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the annual accounts	**0.1**	0.1
Fees payable to the Company's auditor for other services:		
Audit of the company's subsidiaries, pursuant to legislation	**0.5**	0.6
Taxation services	**0.1**	–
Other services, pursuant to legislation	**–**	–
Hire of plant and machinery	**22.9**	27.1
Operating lease rentals:		
Land and buildings	**3.5**	2.8
Plant and machinery	**8.7**	7.5

4 EXCEPTIONAL ITEMS

	2009 £m	2008 £m
Pension credit arising from curtailment of benefits in the Kier Group Pension Scheme	**24.3**	–
Land and work in progress write-downs:		
Partnership Homes	**(42.5)**	(26.6)
Developments – Group	**(2.0)**	(1.5)
– Share of joint ventures	**(5.3)**	(3.2)
	(49.8)	(31.3)
Restructuring of the Partnership Homes division	**(1.8)**	(9.5)
Profit on disposal of investment in joint venture	**–**	16.2
Exceptional items before tax	**(27.3)**	(24.6)
Taxation		
Share of joint ventures	**1.5**	0.9
Group	**6.1**	9.3
	7.6	10.2
Exceptional items after tax	**(19.7)**	(14.4)

The pensions credit has arisen as a consequence of the Board's decision to restrict pensionable salary increases to the lower of actual pay increases and the annual rate of increase in RPI.

The carrying value of land and work in progress has been written down to net realisable value as a result of a further deterioration in market conditions.

The exceptional charges 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.

During the prior year the Group sold its investment in Prospect Healthcare (Hairmyres) Group Limited for £13.8m which, when combined with a refinancing gain from August 2004, resulted in a profit on disposal of £16.2m. (See further details in note 29b)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

5 FINANCE INCOME AND COST

	2009 £m	2008 £m
Finance income		
Interest receivable	**5.3**	9.8
Finance cost		
Interest payable on bank overdrafts and loans	**(0.4)**	(0.2)
Interest payable on long-term borrowings	**(2.0)**	(2.0)
Unwinding of discount on long-term liabilities	**(2.4)**	(4.3)
	(4.8)	(6.5)

6 INFORMATION RELATING TO EMPLOYEES

	Note	2009 No	2008 No
Average number of persons employed during the year including executive directors was:			
United Kingdom		**9,642**	9,207
Rest of world		**1,737**	1,314
		11,379	10,521
		£m	£m
Group staff costs are as follows:			
United Kingdom		**367.1**	342.8
Rest of world		**22.4**	15.3
		389.5	358.1
Wages and salaries		**338.4**	312.7
Social security costs		**30.5**	29.5
Other pension costs		**21.5**	15.5
Share-based payment plans	24	**(0.9)**	0.4
		389.5	358.1

7 INFORMATION RELATING TO DIRECTORS

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 50 to 53.

8 RETIREMENT BENEFIT OBLIGATIONS

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

Kier Group Pension Scheme

This is the principal scheme and includes a defined benefit section and a defined contribution plan. The assets of the Scheme are held under trust separately from those of the Group; the Trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers.

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

An actuarial valuation of the Scheme was undertaken by the trustees' independent actuaries as at 1 July 2007 using the projected unit method. The market value of the Scheme's assets at that date were £508.9m which represented approximately 87% of the benefits that had accrued to members at that date, after allowing for future increases in salaries. The contributions paid during the year were £20.2m (2008: £17.1m) which include special contributions of £8.0m (2008: £6.0m).

Going forward contributions will include an allowance for funding the past service deficit identified at the 2007 valuation date over a 10-year period to June 2018. The Group expects to pay contributions for future service of £12.8m being 20.3% of pensionable pay plus £8.0m for funding the past service deficit in the year to June 2010.

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

Following closure of the defined benefit section of the Scheme to new entrants most new employees are offered membership of the defined contribution section of the Kier Group Pension Scheme. The Group is required to pay contributions in respect of those employees in accordance with the rates specified in their contracts of employment. The contributions paid during the year and the pension charge, amounted to £5.8m (2008: £4.9m).

Kier Sheffield LLP

The Group participates in this defined benefit scheme through its subsidiary Kier Sheffield LLP which has participated as an admitted body in the South Yorkshire Pension Fund since 1 April 2003. As an admitted body it was granted a fully funded past service position at that date, with assets and ongoing past service liabilities of £65.0m.

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

Kier Sheffield LLP's pension costs in respect of the defined benefit scheme are assessed on the advice of an independent qualified actuary using the project unit method. The contributions paid during the year were £1.1m (2008: £1.1m). Going forward Kier Sheffield LLP expects to pay contributions for future service at the rate of 11.5% of pensionable pay which the funds actuary has determined is sufficient to meet ongoing benefits.

Other schemes

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

8 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

IAS 19 'Employee Benefits' disclosures

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

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

Kier Group Pension Scheme

	2009 %	2008 %	2007 %
Rate of general increases in salaries	**3.3**	5.5	4.7
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.2**	3.9	3.2
Discount rate	**6.2**	6.7	5.9
Inflation rate	**3.3**	4.0	3.2

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

	Long-term rate of return expected 2009 %	Long-term rate of return expected 2008 %	Long-term rate of return expected 2007 %	**Value 2009 £m**	Value 2008 £m	Value 2007 £m
Equities	**7.8**	8.5	8.3	**415.6**	349.7	307.5
Corporate bonds	**–**	5.5	5.5	**–**	100.3	120.7
Government bonds	**4.3**	5.0	5.0	**82.8**	88.4	78.5
Total market value of assets				**498.4**	538.4	506.7
Present value of liabilities				**(594.5)**	(584.1)	(537.3)
Deficit				**(96.1)**	(45.7)	(30.6)
Related deferred tax asset				**26.9**	12.8	8.7
Net pension liability				**(69.2)**	(32.9)	(21.9)

Kier Sheffield LLP

	2009 %	2008 %	2007 %
Rate of general increases in salaries	**4.8**	5.5	4.7
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.3**	4.0	3.2
Discount rate	**6.2**	6.7	5.9
Inflation rate	**3.3**	4.0	3.2

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

	Long-term rate of return expected 2009 %	Long-term rate of return expected 2008 %	Long-term rate of return expected 2007 %	**Value 2009 £m**	Value 2008 £m	Value 2007 £m
Equities	**7.8**	8.3	8.3	**81.4**	96.0	106.6
Corporate bonds	**4.8**	5.5	5.5	**9.7**	9.9	8.4
Government bonds	**4.3**	5.0	5.0	**25.0**	25.1	21.7
Total market value of assets				**116.1**	131.0	136.7
Present value of liabilities				**(134.7)**	(132.0)	(124.8)
(Deficit)/surplus				**(18.6)**	(1.0)	11.9
Restriction on pension surplus				**–**	–	(5.1)
				(18.6)	(1.0)	6.8
Related deferred tax asset/(liability)				**5.2**	0.3	(1.9)
Net pension (liability)/asset				**(13.4)**	(0.7)	4.9

8 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Pension sensitivity

The assumption considered to be the most significant is the discount rate adopted. If the discount rate were to increase by 0.1% the Kier Group Pension Scheme deficit would decrease by £9.9m, and the Kier Sheffield LLP deficit would decrease by £2.7m.

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

	2009			2008		
	Kier Group Pension Scheme £m	**Kier Sheffield LLP £m**	**Total £m**	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Total £m
(Charged)/credited to operating profit in the income statement						
Current service cost	**(9.7)**	**(2.8)**	**(12.5)**	(12.1)	(2.8)	(14.9)
Expected return on scheme assets	**39.2**	**9.7**	**48.9**	35.3	10.4	45.7
Interest cost on scheme liabilities	**(37.9)**	**(8.9)**	**(46.8)**	(31.1)	(7.3)	(38.4)
Credit on benefit curtailment	**24.3**	**–**	**24.3**	–	–	–
	15.9	**(2.0)**	**13.9**	(7.9)	0.3	(7.6)
Amount recognised in statement of recognised income and expense						
Actual return less expected return on assets	**(77.4)**	**(25.9)**	**(103.3)**	1.4	(16.9)	(15.5)
Experience gains and losses arising on liabilities	**(9.1)**	**9.2**	**0.1**	(25.7)	2.6	(23.1)
Restriction on pension surplus	**–**	**–**	**–**	–	5.1	5.1
	(86.5)	**(16.7)**	**(103.2)**	(24.3)	(9.2)	(33.5)
Changes in the fair value of scheme assets						
Fair value at 1 July	**538.4**	**131.0**	**669.4**	506.7	136.7	643.4
Expected return on scheme assets	**39.2**	**9.7**	**48.9**	35.3	10.4	45.7
Actual return less expected return on scheme assets	**(77.4)**	**(25.9)**	**(103.3)**	1.4	(16.9)	(15.5)
Contributions by the employer	**20.2**	**1.1**	**21.3**	17.1	1.1	18.2
Contributions by scheme participants	**0.1**	**1.1**	**1.2**	0.1	1.1	1.2
Net benefits paid out	**(22.1)**	**(0.9)**	**(23.0)**	(22.2)	(1.4)	(23.6)
Fair value at 30 June	**498.4**	**116.1**	**614.5**	538.4	131.0	669.4
Changes in the present value of the defined benefit obligation						
Fair value at 1 July	**(584.1)**	**(132.0)**	**(716.1)**	(537.3)	(124.8)	(662.1)
Current service cost	**(9.7)**	**(2.8)**	**(12.5)**	(12.1)	(2.8)	(14.9)
Interest cost on scheme liabilities	**(37.9)**	**(8.9)**	**(46.8)**	(31.1)	(7.3)	(38.4)
Credit on benefit curtailment	**24.3**	**–**	**24.3**	–	–	–
Experience gains and losses on scheme liabilities	**(9.1)**	**9.2**	**0.1**	(25.7)	2.6	(23.1)
Contributions by scheme participants	**(0.1)**	**(1.1)**	**(1.2)**	(0.1)	(1.1)	(1.2)
Net benefits paid out	**22.1**	**0.9**	**23.0**	22.2	1.4	23.6
Fair value at 30 June	**(594.5)**	**(134.7)**	**(729.2)**	(584.1)	(132.0)	(716.1)
Amounts included in the balance sheet						
Fair value of scheme assets	**498.4**	**116.1**	**614.5**	538.4	131.0	669.4
Net present value of the defined benefit obligation	**(594.5)**	**(134.7)**	**(729.2)**	(584.1)	(132.0)	(716.1)
Net deficit	**(96.1)**	**(18.6)**	**(114.7)**	(45.7)	(1.0)	(46.7)
Related deferred tax asset	**26.9**	**5.2**	**32.1**	12.8	0.3	13.1
Net pension liability	**(69.2)**	**(13.4)**	**(82.6)**	(32.9)	(0.7)	(33.6)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets	**614.5**	669.4	643.4	586.3	495.9
Net present value of the defined benefit obligation	**(729.2)**	(716.1)	(662.1)	(646.5)	(617.8)
Restriction on pension surplus	**–**	–	(5.1)	–	–
Net deficit	**(114.7)**	(46.7)	(23.8)	(60.2)	(121.9)
Related deferred tax asset	**32.1**	13.1	6.8	18.1	36.6
Net pension liability	**(82.6)**	(33.6)	(17.0)	(42.1)	(85.3)
Difference between expected and actual return on assets	**(103.3)**	(15.5)	9.5	27.6	41.6
Experience gains and losses on scheme liabilities	**0.1**	(23.1)	18.1	2.4	(83.1)

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

9 INCOME TAX

a) Recognised in the income statement

	2009			2008		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Current tax expense						
UK corporation tax	**12.0**	**(12.2)**	**(0.2)**	20.6	(5.8)	14.8
Overseas tax	**2.5**	**–**	**2.5**	0.5	–	0.5
Adjustments for prior years	**(2.2)**	**–**	**(2.2)**	0.4	–	0.4
Total current tax	**12.3**	**(12.2)**	**0.1**	21.5	(5.8)	15.7
Deferred tax expense						
Origination and reversal of temporary differences	**(0.6)**	**6.1**	**5.5**	3.8	(3.7)	0.1
Effect of change in tax rate	**–**	**–**	**–**	0.1	0.2	0.3
Adjustments for prior years	**2.3**	**–**	**2.3**	(0.9)	–	(0.9)
Total deferred tax	**1.7**	**6.1**	**7.8**	3.0	(3.5)	(0.5)
Total income tax expense in the income statement	**14.0**	**(6.1)**	**7.9**	24.5	(9.3)	15.2
Reconciliation of effective tax rate						
Profit before tax	**50.6**	**(25.8)**	**24.8**	87.1	(23.7)	63.4
Add: tax on joint ventures	**0.3**	**(1.5)**	**(1.2)**	1.1	(0.9)	0.2
Underlying profit before tax	**50.9**	**(27.3)**	**23.6**	88.2	(24.6)	63.6
Income tax at UK corporation tax rate of 28% (2008: 29.5%)	**14.3**	**(7.6)**	**6.7**	26.0	(7.3)	18.7
Non-deductible expenses	**2.8**	**–**	**2.8**	1.8	0.1	1.9
Tax relief on expenses not recognised in the income statement	**(3.0)**	**–**	**(3.0)**	(2.1)	–	(2.1)
Rate change effect on deferred tax	**–**	**–**	**–**	0.1	0.2	0.3
Profits attributable to minority interest not taxable	**(0.1)**	**–**	**(0.1)**	(0.3)	–	(0.3)
Effect of tax rates in foreign jurisdictions	**0.6**	**–**	**0.6**	0.2	–	0.2
Profit on disposal of joint venture taxed in a previous period	**–**	**–**	**–**	–	(2.4)	(2.4)
Capital gains not taxed	**–**	**–**	**–**	–	(0.8)	(0.8)
Tax losses utilised not recognised as a deferred tax asset	**(0.4)**	**–**	**(0.4)**	–	–	–
Under/(over) provision in respect of prior years	**0.1**	**–**	**0.1**	(0.1)	–	(0.1)
Total tax (including joint ventures)	**14.3**	**(7.6)**	**6.7**	25.6	(10.2)	15.4
Tax on joint ventures	**(0.3)**	**1.5**	**1.2**	(1.1)	0.9	(0.2)
Group income tax expense	**14.0**	**(6.1)**	**7.9**	24.5	(9.3)	15.2

9 INCOME TAX CONTINUED

b) Recognised in the statement of recognised income and expense

	2009 £m	2008 £m
Deferred tax expense		
Fair value movements on cash flow hedging instruments:		
Group	**(0.6)**	0.2
Joint ventures	**(4.2)**	(2.0)
Actuarial losses on defined benefit pension schemes	**(28.9)**	(9.4)
Total income tax credit in the statement of recognised income and expense	**(33.7)**	(11.2)

c) Tax losses

At the balance sheet date the Group has unused tax losses of £12.9m (2008: £8.0m) available for offset against future profits. This is made up of £12.9m (2008: £4.4m) of income losses and £nil (2008: £3.6m) of capital losses. A deferred tax asset has been recognised in respect of £10.0m (2008: £0.1m) of income losses. No deferred tax asset has been recognised in respect of the remaining losses, due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

10 DIVIDENDS

Amounts recognised as distributions to equity holders in the year.

	2009 £m	2008 £m
Final dividend for the year ended 30 June 2008 of 37.0 pence (2007: 40.4 pence)	**13.5**	14.5
Interim dividend for the year ended 30 June 2009 of 18.0 pence (2008: 18.0 pence)	**6.6**	6.5
	20.1	21.0

The proposed final dividend of 37.0 pence (2008: 37.0 pence) bringing the total dividend for the year to 55.0 pence (2008: 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 £13.6m will be paid on 27 November 2009 to shareholders on the register at the close of business on 25 September 2009. A scrip dividend alternative will be offered.

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11 EARNINGS PER SHARE

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

	2009 Basic £m	**2009 Diluted £m**	2008 Basic £m	2008 Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**16.1**	**16.1**	47.2	47.2
Exclude: exceptional items	**25.8**	**25.8**	23.7	23.7
Tax thereon	**(6.1)**	**(6.1)**	(9.3)	(9.3)
Underlying earnings	**35.8**	**35.8**	61.6	61.6
Add: amortisation of intangible assets	**2.2**	**2.2**	2.1	2.1
Less: tax on amortisation of intangible assets	**(0.6)**	**(0.6)**	(0.6)	(0.6)
Adjusted earnings	**37.4**	**37.4**	63.1	63.1

	million	**million**	million	million
Weighted average number of shares	**36.5**	**36.5**	36.1	36.1
Weighted average impact of LTIP and Sharesave Scheme	**–**	**0.1**	–	0.3
Weighted average number of shares used for earnings per share	**36.5**	**36.6**	36.1	36.4

	pence	**pence**	pence	pence
Earnings per share	**44.1**	**44.0**	130.7	129.7
Underlying earnings per share (excluding exceptional items)	**98.1**	**97.8**	170.6	169.2
Adjusted earnings per share (excluding exceptional items and the amortisation of intangible assets)	**102.5**	**102.2**	174.8	173.4

12 INTANGIBLE ASSETS

	Goodwill £m	Contract rights £m	Total £m
Cost			
At 1 July 2008 and at 30 June 2009	**5.2**	**18.5**	**23.7**
Amortisation			
At 1 July 2008	–	10.3	10.3
Charge for the year	–	2.2	2.2
At 30 June 2009	**–**	**12.5**	**12.5**
Net book value			
At 30 June 2009	**5.2**	**6.0**	**11.2**
At 30 June 2008	5.2	8.2	13.4
Cost			
At 1 July 2007	5.2	16.6	21.8
Additions	–	1.9	1.9
At 30 June 2008	5.2	18.5	23.7
Amortisation			
At 1 July 2007	–	8.2	8.2
Charge for the year	–	2.1	2.1
At 30 June 2008	–	10.3	10.3
Net book value			
At 30 June 2008	5.2	8.2	13.4
At 30 June 2007	5.2	8.4	13.6

Goodwill relates to the acquisition of Kier Partnership Homes Limited in 2002. This balance has been subject to an annual impairment review based upon projected profits of Kier Partnership Homes Limited but continues to be maintained at the 30 June 2004 carrying value.

Contract rights relate to the acquisition by the Group of the business and assets of the construction and building services operations of Sheffield City Council (£15.8m), Harlow Council (£0.8m) and Stoke-on-Trent City Council (£1.9m). These are being amortised on a straight-line basis over the remaining lives of the contracts. These contracts are in partnership with the respective councils who have retained a participatory ownership interest and the rights for a minority share of the profits. These profit shares are reflected in the income statement as attributable to minority interests. The amounts for the year to June 2009 are, Sheffield City Council £0.4m (2008: £0.9m), Harlow Council £0.3m (2008: £0.1m) and Stoke-on-Trent City Council £0.1m (2008: £nil).

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13 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant, vehicles & fixtures £m	Mining assets £m	Total £m
Cost				
At 1 July 2008	43.2	103.8	18.6	165.6
Additions	1.8	9.5	3.2	14.5
Change in estimates	–	–	0.8	0.8
Disposals	(1.1)	(9.1)	–	(10.2)
Reclassifications	(3.8)	–	–	(3.8)
Write-offs	(0.7)	(1.1)	–	(1.8)
Currency realignment	–	1.6	–	1.6
At 30 June 2009	**39.4**	**104.7**	**22.6**	**166.7**
Accumulated depreciation				
At 1 July 2008	2.0	55.7	15.7	73.4
Charge for the year	1.3	12.6	0.7	14.6
Disposals	(0.1)	(7.2)	–	(7.3)
Reclassifications	(0.3)	–	–	(0.3)
Write-offs	(0.1)	(1.0)	–	(1.1)
Currency realignment	–	0.5	–	0.5
At 30 June 2009	**2.8**	**60.6**	**16.4**	**79.8**
Net book value				
At 30 June 2009	**36.6**	**44.1**	**6.2**	**86.9**
At 30 June 2008	41.2	48.1	2.9	92.2
Cost				
At 1 July 2007	38.0	88.9	19.1	146.0
Additions	5.5	21.9	–	27.4
Acquired on acquisitions	–	–	(0.5)	(0.5)
Disposals	(0.3)	(7.0)	–	(7.3)
At 30 June 2008	43.2	103.8	18.6	165.6
Accumulated depreciation				
At 1 July 2007	1.9	49.7	11.0	62.6
Charge for the year	0.1	11.6	4.7	16.4
Disposals	–	(5.6)	–	(5.6)
At 30 June 2008	2.0	55.7	15.7	73.4
Net book value				
At 30 June 2008	41.2	48.1	2.9	92.2
At 30 June 2007	36.1	39.2	8.1	83.4

Reclassifications relate to the transfer of properties to work in progress. These properties were previously occupied as offices by the Partnership Homes division but are now being held by the Developments division for sale.

Write-offs relate to reductions in asset values due to the restructuring of the Partnership Homes division. They have been charged against the provision established for this restructuring during the year ended 30 June 2008.

14 INVESTMENT IN JOINT VENTURES

a) Movements in year

	2009 £m	2008 £m
Investment in joint ventures		
At 1 July	**39.9**	40.7
Additions	**9.1**	3.2
Loan repayments	**(0.1)**	(0.3)
Disposals	**–**	(5.0)
Release of deferred refinancing gain	**–**	8.2
Share of trading profit after taxation	**–**	0.9
Share of land and work in progress write-downs after taxation	**(3.8)**	(2.3)
Net expense recognised directly in equity	**(15.3)**	(6.7)
Deferred tax on items recognised directly in equity	**4.2**	2.0
Dividends received	**(0.4)**	(0.8)
At 30 June	**33.6**	39.9

b) Analysis of investment

	2009			2008
	Kier Developments Limited £m	Other joint ventures £m	Total £m	Total £m
Investment in joint ventures				
Property, plant and equipment	**8.8**	**1.8**	**10.6**	10.9
Deferred tax assets	**2.6**	**3.5**	**6.1**	1.9
Other financial assets	**–**	**–**	**–**	5.4
Current assets	**60.7**	**207.2**	**267.9**	266.7
Gross assets	**72.1**	**212.5**	**284.6**	284.9
Payables – current	**(2.2)**	**(13.1)**	**(15.3)**	(12.2)
Payables – non-current	**(71.2)**	**(202.2)**	**(273.4)**	(266.6)
Net external assets	**(1.3)**	**(2.8)**	**(4.1)**	6.1
Loans provided to joint ventures	**20.3**	**17.4**	**37.7**	33.8
Total investment in joint ventures	**19.0**	**14.6**	**33.6**	39.9

The liabilities of the joint ventures are without recourse to the Group. Details of the Group's interests in joint ventures are given on page 95.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

15 DEFERRED TAX

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

	Property plant and equipment £m	Short-term temporary differences £m	Retirement benefit obligations £m	Tax losses £m	Total £m
At 1 July 2007	(2.8)	(6.6)	6.8	0.8	(1.8)
(Charge)/credit to income	(0.1)	4.5	(3.1)	(0.8)	0.5
Credit direct to recognised income and expense	–	(0.2)	9.4	–	9.2
Share-based payments charged to equity	–	(1.3)	–	–	(1.3)
At 30 June 2008	(2.9)	(3.6)	13.1	–	6.6
(Charge)/credit to income	0.1	(0.8)	(9.9)	2.8	(7.8)
Credit direct to recognised income and expense	–	0.6	28.9	–	29.5
Share-based payments credited to equity	–	0.3	–	–	0.3
At 30 June 2009	**(2.8)**	**(3.5)**	**32.1**	**2.8**	**28.6**

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

	Assets 2009 £m	Assets 2008 £m	**Liabilities 2009 £m**	Liabilities 2008 £m	**Net 2009 £m**	Net 2008 £m
Property, plant and equipment	**2.0**	1.8	**(4.8)**	(4.7)	**(2.8)**	(2.9)
Inventories	**2.5**	3.0	**(7.4)**	(7.5)	**(4.9)**	(4.5)
Payables	**8.4**	7.2	**(7.9)**	(7.2)	**0.5**	–
Financial instruments	**0.3**	–	**–**	(0.3)	**0.3**	(0.3)
Retirement benefit obligations	**32.1**	13.1	**–**	–	**32.1**	13.1
Share-based payments	**0.6**	1.5	**–**	(0.3)	**0.6**	1.2
Tax losses	**2.8**	–	**–**	–	**2.8**	–
Total	**48.7**	26.6	**(20.1)**	(20.0)	**28.6**	6.6
Set-off tax	**(16.6)**	(13.5)	**16.6**	13.5	**–**	–
Net tax assets/(liabilities)	**32.1**	13.1	**(3.5)**	(6.5)	**28.6**	6.6

16 INVENTORIES

	2009 £m	2008 £m
Raw materials and consumables	**3.4**	3.3
Construction contracts in progress	**28.1**	43.6
Land and work in progress held for development	**386.7**	462.5
Other work in progress	**6.1**	7.0
	424.3	516.4

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

17 CONSTRUCTION CONTRACTS

Contracts in progress at the balance sheet date comprise contract costs incurred plus recognised profits less losses of £6,190.7m (2008: £6,027.4m), less progress billings received and receivable of £6,301.7m (2008: £6,147.3m).

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

	2009 £m	2008 £m
Inventories	**28.1**	43.6
Trade and other payables	**(139.1)**	(163.5)
	(111.0)	(119.9)

18 TRADE AND OTHER RECEIVABLES

	2009 £m	2008 £m
Current:		
Trade receivables	**215.4**	272.7
Construction contract retentions	**45.0**	45.7
Amounts receivable from joint ventures	**1.7**	2.2
Other receivables	**17.9**	18.0
Prepayments and accrued income	**16.7**	22.7
	296.7	361.3
Non-current:		
Construction contract retentions	**17.5**	16.7
Finance lease receivables	**31.3**	–
Other receivables	**0.2**	0.7
	49.0	17.4

Finance lease receivables

During the year the Group entered into a 30-year lease arrangement with the Ministry of Justice. This transaction has been recognised as a finance lease.

Total rents receivable during the lease period are £79.2m of which £0.4m was received in the year to June 2009. Amounts due at 30 June 2009 under the lease are receivable as follows:

	Future minimum lease receipts £m	**Interest £m**	**Present value of minimum lease receipts £m**
Less than one year	1.8	2.0	(0.2)
Between one and five years	7.7	8.1	(0.4)
More than five years	69.3	37.6	31.7
	78.8	**47.7**	**31.1**

During the first five years of the lease the finance income receivable is in excess of the rents receivable. At the expiry of the lease the property reverts to the Ministry of Justice at nil cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

19 CASH, CASH EQUIVALENTS AND BORROWINGS

This note provides information about the contractual terms of the Group's bank balances, interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 26.

	2009 £m	2008 £m
Bank balances and cash in hand	**84.3**	130.6
Bank deposits with a maturity of less than three months	**38.4**	43.5
Cash and cash equivalents	**122.7**	174.1
Long-term borrowings	**(30.2)**	(30.2)
Net funds in the statement of cash flows	**92.5**	143.9

Long-term borrowings comprise 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. Further information on these borrowings are detailed in note 26.

Cash and cash equivalents include £6.2m (2008: £13.6m) being the Group's share of cash and cash equivalents held by joint arrangements and £40.5m (2008: £31.3m) of cash that cannot be offset against other Group bank balances.

20 TRADE AND OTHER PAYABLES

	2009 £m	2008 £m
Current:		
Payments received on account	**8.6**	16.6
Trade payables	**504.7**	594.2
Construction contract balances	**139.1**	163.5
Finance lease receivables (note 18)	**0.2**	–
Other taxation and social security costs	**23.0**	24.3
Other payables	**13.1**	22.8
Accruals and deferred income	**81.0**	92.8
	769.7	914.2

	2009 £m	2008 £m
Non-current:		
Trade payables	**9.5**	10.0
Accruals and deferred income	**3.9**	3.5
	13.4	13.5

21 PROVISIONS

	Restoration of mining sites £m	Other provisions £m	Total £m
At 1 July 2008	5.3	28.6	33.9
Utilised	(0.2)	(12.2)	(12.4)
Unwinding of discount	0.1	–	0.1
Additions	0.8	15.8	16.6
At 30 June 2009	**6.0**	**32.2**	**38.2**

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

Other provisions include £1.3m (2008: £8.1m) for the restructuring of the Partnership Homes division. Outflows are expected to occur within the next year.

Other provisions include £15.3m (2008: £13.7m) held in the Group's captive insurance company. Due to the nature of the liabilities, the timing of any potential future outflows is uncertain.

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

	2009 £m	2008 £m
Due within one year	**5.9**	12.0
Due after one year	**32.3**	21.9
	38.2	33.9

22 SHARE CAPITAL

The share capital of the Company comprises:

	2009 Number	2009 £m	2008 Number	2008 £m
Ordinary shares of 1p each authorised	**45,000,000**	**0.5**	45,000,000	0.5
Issued and fully paid	**37,221,869**	**0.4**	37,021,070	0.4

During the year 200,779 ordinary shares were issued as a scrip dividend alternative at a premium of £1,785,000.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

23 RECONCILIATION OF MOVEMENT IN RESERVES AND CHANGES IN TOTAL EQUITY

	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 2007	0.4	27.0	2.7	145.7	7.0	(0.6)	182.2	0.8	183.0
Total recognised income and expense	–	–	–	23.1	(4.4)	0.7	19.4	1.0	20.4
Dividends paid	–	–	–	(21.0)	–	–	(21.0)	(0.9)	(21.9)
Issue of own shares	–	7.4	–	–	–	–	7.4	–	7.4
Purchase of own shares	–	–	–	(5.5)	–	–	(5.5)	–	(5.5)
Share-based payments charge	–	–	–	1.0	–	–	1.0	–	1.0
Tax on share-based payments	–	–	–	(1.3)	–	–	(1.3)	–	(1.3)
At 30 June 2008	0.4	34.4	2.7	142.0	2.6	0.1	182.2	0.9	183.1
Total recognised income and expense	–	–	–	(58.2)	(12.4)	0.1	(70.5)	0.8	(69.7)
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	**0.4**	**36.1**	**2.7**	**62.3**	**(9.8)**	**0.2**	**91.9**	**0.6**	**92.5**

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

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

24 SHARE-BASED PAYMENTS

Options and awards over the Company's ordinary shares at 30 June 2009 were as follows:

	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	LTIP 2007 award	LTIP 2008 award	LTIP 2009 award	Total
Date of grant	25 May 2007	1 May 2008	17 April 2009	2 October 2006	16 October 2007	17 November 2008	
Awards outstanding at 30 June 2009							
– directors	–	–	2,440	67,154	68,952	210,253	**348,799**
– employees	66,601	140,491	1,193,024	80,400	102,060	305,116	**1,887,692**
	66,601	140,491	1,195,464	147,554	171,012	515,369	**2,236,491**

Sharesave Scheme

Options were granted on 17 April 2009 at an exercise price of 750p, these are exercisable at the holders' discretion from 1 July 2012 until 1 January 2013.

LTIP

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

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

	2009 Number of shares	**2009 £m**	2008 Number of shares	2008 £m
At 1 July	**654,137**	**13.6**	633,653	11.3
Acquired during the year	**87,439**	**0.7**	313,713	5.5
Issued in satisfaction of awards	**(215,739)**	**(5.0)**	(293,229)	(3.2)
At 30 June	**525,837**	**9.3**	654,137	13.6

The market value of these shares at 30 June 2009 was £4.8m. The dividends on these shares have been waived.

A description of these schemes and the terms and conditions of each scheme are included in the directors' remuneration report on page 50.

Value of share schemes

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

	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	LTIP 2007 award	LTIP 2008 award	LTIP 2009 award
Date of grant	25 May 2007	1 May 2008	17 April 2009	2 October 2006	16 October 2007	17 November 2008
Share price at grant	2,254.0p	1,166.0p	907.0p	1,836.0p	1,984.0p	780.0p
Exercise price	2,500.0p	1,400.0p	750.0p	nil	nil	nil
Option life	3 years	3 years	3 years	3 years	3 years	3 years
Expected volatility	26.4%	34.7%	42.1%	N/A	N/A	N/A
Dividend yield	1.2%	5.0%	6.1%	1.4%	2.5%	7.1%
Risk-free interest rate	5.7%	4.4%	2.2%	N/A	N/A	N/A
Value per option	445.0p	173.0p	237.0p	1756.0p	1,840.0p	627.0p

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

24 SHARE-BASED PAYMENTS CONTINUED

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

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

	2009 £m	2008 £m
Equity-settled	**(0.9)**	1.0
Cash-settled including employer's national insurance	**–**	(0.6)
Total (credit)/charge recognised as employee costs	**(0.9)**	0.4

Included in the other payables is an amount of £0.1m (2008: £0.4m) relating to provisions for employer's national insurance and cash settled share-based payments.

A reconciliation of option movements is shown below:

	Number of options 2009	**Weighted average exercise price 2009**	Number of options 2008	Weighted average exercise price 2008
Outstanding at 1 July	**1,120,722**	**743.0p**	1,082,361	704.5p
Forfeited	**(379,325)**	**1237.7p**	(206,155)	1814.9p
Exercised	**(215,739)**	**nil**	(291,744)	2.5p
Granted	**1,710,833**	**524.1p**	536,260	829.9p
Outstanding at 30 June	**2,236,491**	**563.3p**	1,120,722	743.0p
Exercisable at 30 June	**–**	**–**	–	–

25 GUARANTEES AND CONTINGENT LIABILITIES

There are contingent liabilities in respect of performance bonds, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures, entered into in the normal course of business. The Office of Fair Trading has named Kier Regional Limited as one of the 112 construction companies in its Statement of Objections (SO) in connection with its investigation into alleged infringements of UK Competition Law in the sector. Kier has responded to the SO but it is not possible to predict the effect of the Office of Fair Trading's investigation on the Group's financial position or results of operations.

26 FINANCIAL INSTRUMENTS

Financial risk management

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

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

Credit risk

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

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

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

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

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

	2009 £m	2008 £m
Provision as at 1 July	**1.6**	2.1
Increase in provision during the year	**2.5**	0.2
Provision utilised during the year	**–**	–
Provision released during the year	**(0.5)**	(0.7)
Provision as at 30 June	**3.6**	1.6

There are £43.8m (2008: £63.7m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £32.2m (2008: £41.3m) had been received by the end of August 2009. There are no indications as at 30 June 2009 that the debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are overdue and unprovided. The proportion of trade receivables at 30 June 2009 that were overdue for payment was 20% (2008: 23%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Construction	41 days (2008: 48 days)
Support Services	26 days (2008: 38 days)

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

Market risk

Interest rate risk

The Group has hedged part of its exposure to interest rate movements through a private placement of £30.2m of loan notes for 10 years from February 2003, which bear interest on a fixed rate basis at 6.4% p.a. The balance of the Group's borrowings are to finance short-term working capital requirements. Such borrowings are subject to floating rates of interest linked to LIBOR.

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

Foreign currency risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

26 FINANCIAL INSTRUMENTS CONTINUED

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

Derivative financial instruments

At 30 June 2009	Current liabilities £m	Non-current liabilities £m	Total liabilities £m
Fuel price forward contracts	**(0.6)**	**(0.3)**	**(0.9)**

Fuel price forward contracts have been accounted for as an effective cash flow hedge.

In addition to the above, a number of the Group's PFI joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. Interest-bearing debts and associated interest rate derivatives within these joint ventures have a typical term of between 25 and 30 years and are without recourse to the Group. At 30 June 2009 the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £146.5m. The Group's share of the total net fair value liability of these interest rate derivatives at 30 June 2009 amounted to £11.9m which, together with the related deferred tax asset of £3.3m, have met the criteria for hedge accounting and as a result have been recognised directly in equity.

Financial assets and liabilities – analysis by currency and maturity dates
At 30 June 2009 the Group had cash, overdrafts and long-term borrowings denominated in the following currencies:

	2009			2008		
	Financial assets £m	**Financial liabilities £m**	**Aggregate £m**	Financial assets £m	Financial liabilities £m	Aggregate £m
Currency:						
Sterling	**117.2**	**(16.8)**	**100.4**	162.2	(16.8)	145.4
US dollar	**0.3**	**(13.4)**	**(13.1)**	2.8	(13.4)	(10.6)
Euro	**0.3**	**–**	**0.3**	2.3	–	2.3
Other	**4.9**	**–**	**4.9**	6.8	–	6.8
Total	**122.7**	**(30.2)**	**92.5**	174.1	(30.2)	143.9

There is no material difference between the carrying value and fair value of the Group's aggregate financial assets and liabilities.

The financial liabilities represent a £17.0m UK sterling loan and a £13.4m US dollar loan, net of £0.2m of capitalised finance costs, from the private placement of loan notes made in February 2003. The loans are repayable in one payment in February 2013. The UK sterling loan is at a fixed interest rate of 6.4% for the term of the loan. The Group has entered into interest payment and repayment swaps for the US dollar loan, which give an effective 6.4% fixed interest rate for the term of the loan.

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

Borrowing facilities
The Group has £97.5m (2008: £102.5m) of unsecured committed borrowing facilities due for renewal as follows:

	Undrawn facility £m
2010	5.0
2011	92.5
	97.5

In addition the Group has £12.5m (2008: £12.5m) of unsecured overdraft facilities repayable on demand.

27 FINANCIAL AND CAPITAL COMMITMENTS

	2009 £m	2008 £m
Commitments for capital expenditure in subsidiaries	**0.8**	2.9
Commitments for equity and subordinate debt in PFI joint ventures	**–**	4.3
	0.8	7.2

Non-cancellable operating lease rentals are payable as follows:

	2009 Property £m	2009 Plant & machinery £m	2008 Property £m	2008 Plant & machinery £m
Within one year	**1.2**	**1.8**	0.6	2.3
Between one and five years	**7.6**	**22.8**	6.9	21.8
Over five years	**14.2**	**–**	7.1	0.2
	23.0	**24.6**	14.6	24.3

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period of 99 years. Vehicle leases typically run for a period of 4 years. None of the leases includes contingent rentals.

28 RELATED PARTIES

Identity of related parties

The Group has a related party relationship with its joint arrangements, joint ventures and key management personnel.

Transactions with key management personnel

The Group's key management personnel are the executive and non-executive directors as identified in the directors' remuneration report on pages 50 to 53. Other than disclosed in the directors' remuneration report, there were no other transactions with key management personnel in either the current or preceding year.

Sales of goods to joint arrangements and joint ventures

	2009 £m	2008 £m
Construction services and materials	**15.6**	67.9
Staff and associated costs	**15.4**	11.1
Management services	**1.4**	1.2
	32.4	80.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

28 RELATED PARTIES CONTINUED

Amounts due from joint ventures are analysed below:

	2009 £m	2008 £m
Academy Services (Norwich) Limited	**1.8**	0.5
Academy Services (Oldham) Limited	**2.6**	0.3
Academy Services (Sheffield) Limited	**2.8**	2.5
Academy Services (Tendring) Limited	**0.6**	0.8
Academy Services (Waltham Forest) Limited	**2.6**	2.9
ASK (Greenwich) Limited	**0.7**	0.8
Information Resources (Bournemouth) Limited	**0.7**	0.8
Information Resources (Oldham) Limited	**1.0**	1.0
Justice Support Services (North Kent) Limited	**1.7**	1.7
Prospect Healthcare (Hinchingbrooke) Limited	**1.2**	1.2
Prospect Healthcare (Ipswich) Limited	**1.5**	1.5
Prospect Healthcare (Reading) Limited	**1.7**	1.7
Kier Developments Limited	**20.3**	20.3
Saudi Comedat Co.	**0.2**	–
	39.4	36.0

29 ACQUISITIONS AND DISPOSALS

a) Summary of acquisitions

	2009 £m	2008 £m
Construction and building services operations of:		
Sheffield City Council	**1.4**	1.4
Stoke on Trent City Council	**–**	2.0
Hugh Bourn Developments (Wragby) Limited:		
Consideration paid	**12.6**	13.1
Total	**14.0**	16.5

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 the value of the net assets acquired.

The consideration was payable as follows:

	£m
Paid at 30 June 2008	17.0
Paid during the year ended 30 June 2009	1.4
Unwinding of discount	(1.7)
	16.7

29 ACQUISITIONS AND DISPOSALS CONTINUED

Acquisition of the business and assets of the building services operation of Stoke-on-Trent City Council

On 4 February 2008 the Group, through its subsidiary Kier Stoke Limited, acquired the business and assets of the building services operation of Stoke on Trent City Council. The consideration, payable wholly in cash, was £2.0m representing the value of the net assets acquired (intangible assets £1.9m and inventory £0.1m).

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 is payable as follows:

	£m
Total consideration payable	46.8
Paid at 30 June 2008	(37.1)
Paid during the year ended 30 June 2009	(12.6)
Unwinding of discount	3.4
Deferred at 30 June 2009	0.5

b) Disposal of investment in joint venture

During the prior year the Group sold its investment in Prospect Healthcare (Hairmyres) Group Limited. The disposal proceeds can be reconciled to the profit on disposal as follows:

	£m
Gross sales proceeds	13.8
Sale costs paid during the year ended 30 June 2008	(0.2)
Net sale proceeds	13.6
Book value of net assets and loans of joint venture	(5.0)
Release of deferred refinancing gain	8.2
Loan interest receivable included in gross proceeds	(0.2)
Sale costs payable after 30 June 2008	(0.4)
Profit on disposal	16.2

COMPANY BALANCE SHEET
AT 30 JUNE 2009

	Notes	2009 £m	2008 £m
Fixed assets			
Investment in subsidiary undertakings	5	**105.3**	105.3
Current assets			
Debtors	6	**6.4**	6.3
Cash at bank and in hand		**183.5**	200.5
		189.9	206.8
Current liabilities			
Creditors – amounts falling due within one year	7	**(216.0)**	(237.5)
Net current liabilities		**(26.1)**	(30.7)
Total assets less current liabilities		**79.2**	74.6
Creditors – amounts falling due after more than one year	7	**(30.2)**	(30.2)
Net assets		**49.0**	44.4
Capital and reserves			
Called up share capital	8	**0.4**	0.4
Share premium account	9	**36.1**	34.4
Merger relief reserve	9	**1.2**	1.2
Capital redemption reserve	9	**2.7**	2.7
Share scheme reserve	9	**(10.0)**	(11.8)
Profit and loss account	9	**18.6**	17.5
Shareholders' funds	10	**49.0**	44.4

The financial statements were approved by the Board of directors on 16 September 2009 and were signed on its behalf by:

J Dodds
D E Mattar
Directors

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with UK GAAP.

A cash flow statement has not been presented as permitted by FRS 1 (revised) 'Cash flow statements'.

Fixed asset investments

Investments in subsidiary undertakings are included in the balance sheet at cost less any provision for diminution in value.

Deferred taxation

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

Own shares

The cost of the Company's investment in its own shares which comprise shares held by the Kier Group 1999 Employee Benefit Trust for the purpose of funding of the Company's share option plans, is shown as a reduction in shareholders' funds in retained earnings.

Share-based payments

The Company issues equity-settled share-based payments under the Sharesave and LTIP schemes. The fair value of these schemes at the date of grant is expressed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest.

Financial instruments

The Company's principal financial assets and liabilities are cash at bank and borrowings. Cash at bank is carried in the balance sheet at nominal value. Borrowings are recognised initially at fair value and subsequently at amortised cost.

The consolidated financial statements include disclosures in note 26 under IFRS 7 which comply with FRS 29 'Financial Instruments and Disclosures'. Consequently the Company has taken advantage of certain exemptions in FRS 29 from the requirement to present separate financial instrument disclosures for the Company.

2 PROFIT FOR THE YEAR

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year.

The auditors' remuneration for audit services to the Company was £4,050 (2008: £4,835). No other services were provided to the Company.

3 INFORMATION RELATING TO DIRECTORS AND EMPLOYEES

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 50 to 53. The Company has no other employees other than the directors.

4 DIVIDENDS

Details of the dividends paid by the Company are included in note 10 of the consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

5 FIXED ASSETS – INVESTMENTS

	£m
Cost at 1 July 2008 and 30 June 2009	**105.3**

6 DEBTORS

	2009 £m	2008 £m
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**–**	0.1
Other debtors	**5.8**	5.5
Corporation tax	**0.6**	0.7
	6.4	6.3

7 CREDITORS

	2009 £m	2008 £m
Amounts falling due within one year:		
Bank overdrafts and loans	**189.5**	210.7
Amounts due to subsidiary undertakings	**20.3**	20.7
Other creditors	**6.2**	6.1
	216.0	237.5
Amounts falling due after one year:		
Long-term borrowings	**30.2**	30.2

Long-term borrowings due after more than one year comprise 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.

8 SHARE CAPITAL

Details of the share capital of the Company are included in note 22 of the consolidated financial statements.

9 RESERVES

The movement in reserves is as follows:

	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Share scheme reserve £m	Profit & loss £m
At 30 June 2007	27.0	1.2	2.7	(8.6)	22.6
Issue of shares	7.4	–	–	–	–
Increase in investment in own shares	–	–	–	(2.3)	–
Movement in provision for share-based payments	–	–	–	(0.9)	–
Profit for the year	–	–	–	–	15.9
Dividends paid	–	–	–	–	(21.0)
At 30 June 2008	34.4	1.2	2.7	(11.8)	17.5
Issue of shares	1.7	–	–	–	–
Increase in investment in own shares	–	–	–	4.3	–
Movement in provision for share-based payments	–	–	–	(2.5)	–
Profit for the year	–	–	–	–	21.2
Dividends paid	–	–	–	–	(20.1)
At 30 June 2009	**36.1**	**1.2**	**2.7**	**(10.0)**	**18.6**

The balance on the share scheme reserve comprises the investment in own shares of £9.3m (2008: £13.5m), and a debit balance on the share scheme reserve of £0.7m (2008: credit balance £1.7m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment schemes are included in note 24 of the consolidated financial statements.

10 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2009 £m	2008 £m
Opening shareholders' funds	**44.4**	45.3
Profit for the year	**21.2**	15.9
Dividends paid	**(20.1)**	(21.0)
Issue of shares	**1.7**	7.4
Increase in investment in own shares	**4.3**	(2.3)
Movement in provision for share-based payments	**(2.5)**	(0.9)
Closing shareholders' funds	**49.0**	44.4

PRINCIPAL OPERATING SUBSIDIARIES AND BUSINESS UNITS

Construction	**Kier Regional Limited** Kier Build Kier Eastern Kier London Kier Marriott Kier Moss Kier Northern Kier North West Kier Scotland Kier South East Kier Southern Kier Western
	Kier Construction Limited
Support Services	**Kier Support Services Limited** Kier Building Maintenance Kier Engineering Services Kier Facilities Services Limited Kier Harlow Limited Kier Islington Limited Kier North Tyneside Limited Kier Plant Limited Kier Sheffield LLP Kier Stoke Limited Kier Street Services
Partnership Homes	**Kier Homes Limited** Kier Partnership Homes Limited
Developments	**Kier Property Limited** Kier Developments Limited (50% owned and accounted for as a joint venture) Kier UKSC LLP Kier Ventures Limited
	Kier Project Investment Limited
	Kier Asset Partnership Services Limited
Group Services	**Kier Limited**

Notes:

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

ii) The Group has entered into partnership agreements with Harlow Council, Sheffield City Council and Stoke on Trent City Council whereby the respective councils have a participating ownership interest and receive a minority share of the profits of Kier Harlow Limited, Kier Sheffield LLP and Kier Stoke Limited.

iii) The ordinary share capital of all other companies is wholly owned. Kier Group plc holds directly all the shares of Kier Limited and Kier Homes Limited. The shares of the other companies are held by subsidiary undertakings.

PRINCIPAL JOINT ARRANGEMENTS AND JOINT VENTURES

Joint arrangements

Construction

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

Besix/Kier — a joint arrangement between Kier Construction and NV Besix SA.

KMI Plus — a joint arrangement between Kier Construction, J Murphy & Sons Limited, Interserve Project Services Limited and Mouchel Parkman Services Limited

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

Dubai

Leighton/Kier — a joint arrangement between Kier Construction and Gulf Leighton LLC.

Romania

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

Commercial property development

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

Joint ventures

	Interest held
Construction	
Incorporated and operating in the Kingdom of Saudi Arabia:	
Saudi Comedat Co.	25%
Long-term concession holding under the Private Finance Initiative	
Academy Services (Holdings) Limited	50%
Academy Services (Norwich) Holdings Limited	50%
Academy Services (Oldham) 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%
Justice Support Services (North Kent) Holdings Limited	42.5%
Prospect Healthcare (Hinchingbrooke) Holdings Limited	50%
Prospect Healthcare (Ipswich) Holdings Limited	50%
Prospect Healthcare (Reading) Holdings Limited	50%
Commercial property development	
Kier Developments Limited	50%
Solum Regeneration LP	50%

Notes:

i) Joint arrangements are contracted agreements to co-operate on a specific project which is an extension of the Group's existing business. Joint ventures are ongoing businesses carrying on their own trade.

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

iii) Interests in the above joint ventures are held by subsidiary undertakings.

FINANCIAL RECORD

Year ended 30 June	**2009 £m**	2008 £m	2007 £m	2006 £m	2005 £m
Revenue: Group and share of joint ventures	**2,145.6**	2,374.2	2,127.9	1,838.3	1,623.2
Group operating profit	**50.1**	82.9	74.9	56.0	48.1
Joint ventures – share of operating profit	**1.0**	4.4	7.3	7.2	5.2
Total finance cost net	**(0.2)**	0.9	(3.2)	(2.7)	(4.3)
Joint venture tax	**(0.3)**	(1.1)	(1.4)	(1.4)	(1.2)
Profit before tax before exceptional items	**50.6**	87.1	77.6	59.1	47.8
Exceptional items	**(25.8)**	(23.7)	–	–	6.7
Profit before tax	**24.8**	63.4	77.6	59.1	54.5
Income tax	**(7.9)**	(15.2)	(21.3)	(16.2)	(17.9)
Profit for the year	**16.9**	48.2	56.3	42.9	36.6
Earnings per share					
– undiluted	**44.1p**	130.7p	155.0p	120.8p	103.4p
Dividend per share	**55.0p**	55.0p	50.0p	26.0p	22.2p
At 30 June					
Shareholders' funds	**£92.5m**	£183.1m	£183.0m	£108.5m	£52.8m
Net assets per share	**248.5p**	494.6p	500.4p	302.3p	148.0p

The figures for 2005 were restated in 2006 in respect of the transition from UK GAAP to IFRS.

CORPORATE INFORMATION

Directors
P M White CBE FCA Chairman
J Dodds Chief Executive
I M Lawson FCIOB
D E Mattar BSc FCA
M P Sheffield BSc CEng MICE
R W Simkin BSc MRTPI
C V Geoghegan BA FRAeS
S W Leathes MA FCA
N P Winser CEng FIET FIGEM (appointed 1 March 2009)

M D Barton LLB Secretary

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

Telephone: 01767 640111
www.kier.co.uk

Registered Number
England 2708030

Financial calendar

7 November 2009
Annual general meeting

27 November 2009
Payment of final dividend for 2008/09

February 2010
Announcement of half-year results
and interim dividend for 2009/10

April 2010
Payment of interim dividend

September 2010
Announcement of preliminary full-year results
and final dividend for 2009/10

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8 Salisbury Square
London
EC4Y 8BB

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Lloyds Banking Group plc
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134 Edmund Street
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B3 2ES

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1 Churchill Place
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E14 5HP

Royal Bank of Scotland PLC
280 Bishopsgate
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