

Chairman's introduction

A culture of good governance

The Board believes that its effectiveness, and that of the Group, should be supported by a strong governance framework.



Dear shareholders,

The 2014 financial year was another successful one for Kier. The Group continues to demonstrate its ability to adapt to significant change, having recently integrated May Gurney and also undertaken a comprehensive business-efficiency programme.

The Board believes that its effectiveness, and that of the Group, should be supported by a strong governance framework. The Board is responsible for ensuring that governance across the Group is robust, in particular so as to manage its future growth.

In this part of the annual report, we set out the measures that we have taken to ensure that the Group continues to apply high standards of corporate governance. As an introduction, I set out a summary of some of the important corporate governance issues which the Group has faced during the year.

Leadership and effectiveness

The Board is collectively responsible for the long-term success of the Group and for establishing a framework of prudent and effective controls to enable risk to be assessed and managed. We also believe that good corporate governance requires a board with an appropriate range of skills and experience.

There have been a number of changes to the Board during the year: Paul Sheffield stood down as chief executive, Chris Geoghegan retired as a non-executive director and, more recently, Kirsty Bashforth was appointed as a non-executive director.

I would like to express our thanks to Paul for his long service with Kier. He made a significant contribution in over 30 years with the Group, most recently overseeing the acquisition and integration of May Gurney. However, we believe in succession from within Kier and I was

therefore very pleased to appoint Haydn Mursell as the new chief executive. We are also pleased that Beverley Dew will be joining us as the new finance director. Beverley has significant experience of working within the construction, services and residential sectors and, when he joins us, will fit in well with the other executive directors and the rest of the Board. We will issue another announcement when his starting date has been decided.

I would also like to thank Chris Geoghegan for his contribution to the Board – in particular, as the chair of the Remuneration Committee and for his support to me as the senior independent non-executive director. We were delighted to have announced the appointment of Kirsty Bashforth as a non-executive director with effect from 1 September 2014. Kirsty brings a wealth of experience from her time at BP plc. Since joining us, Kirsty has been participating in a comprehensive induction programme and has already demonstrated that she will play a key part in the boardroom debate.

When making these changes, we considered the balance of skills and experience required by the Board and the need to ensure that we have a diverse board in terms of background, experience and gender. Although we do not have a target in relation to the number of women on the Board, we endorse Lord Davies' recommendations and include diversity as a key consideration when assessing its composition.

Accountability

As a board, we understand our responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects. We also understand the need to maintain sound risk management and internal control systems. During the course of the year, the Risk Management and Audit Committee has assisted the Board to discharge its obligations with respect to these two requirements.

Remuneration

This year, there have been a number of changes in reporting requirements for the Remuneration Committee to consider. You will see that the directors' remuneration report includes both a section outlining the Group's remuneration policy and a section reporting on remuneration during the year ended 30 June 2014. The Remuneration Committee has reflected shareholders' views in the remuneration policy, ahead of putting it to a shareholder vote at the 2014 annual general meeting.

Relations with shareholders

Members of the Board have met a number of our institutional investors during the year to understand their views on matters of significance to them. As chairman, my discussions with shareholders during the course of the year on a variety of governance and strategy matters have helped to ensure that I can keep the Board informed about their issues and concerns. Further details of our engagement with shareholders are set out on page 59.

The annual general meeting provides a valuable opportunity for all shareholders to hear more about how we have performed during the year and to meet the Board in person. I look forward to welcoming shareholders at the meeting on 13 November 2014.

Phil White

Chairman

17 September 2014

Board of directors



Phil White CBE (65)
Chairman

Appointed chairman of the Group in January 2008, 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 within both listed and private companies. He is currently chairman of Lookers plc and The Unite Group plc and a non-executive director of Stagecoach Group plc and Vp plc. He is chair of the Nomination Committee and a member of the Remuneration Committee.

Committee membership



Haydn Mursell (43)
Chief executive

Appointed chief executive with effect from 1 July 2014. Joined Kier in August 2010 as finance director designate and took over the role of group finance director in November 2010. He also assumed operational responsibility for the Property division in June 2013. He was previously deputy group finance director at Balfour Beatty plc and, prior to that, UK finance director at Bovis Lend Lease. He is a member of the Institute of Chartered Accountants, having trained and qualified at KPMG.



Steve Bowcott (59)
Chief operating officer

Re-joined Kier in January 2007 as a director within the Construction division. He was appointed to the Board in July 2010 and was appointed as the chief operating officer in June 2013. He has operational responsibility for the Group's construction and services operations. He has over 35 years' experience in building, civil engineering and utilities with experience in both the UK and overseas and has led the integration of May Gurney and the Group's recent business-efficiency programme.



Richard Bailey (62)
Non-executive director

Appointed to the Board with effect from October 2010. He is a chartered accountant and a partner in Rothschild, the global financial advisory business, where he has spent most of his career. He is currently chairman of Rothschild's regional business. He has been involved in a range of private and public company work with a focus on mergers, acquisitions, private equity and capital raising. He is the senior independent non-executive director, the chair of the Risk Management and Audit Committee and a member of the Nomination and Remuneration Committees.

Committee membership



Kirsty Bashforth (44)
Non-executive director

Appointed to the Board with effect from 1 September 2014. She has over 20 years of experience with BP plc ('BP'). Her current role is Group Head of Organisational Effectiveness, having undertaken a number of other roles within BP, including leading a process and capability improvement programme across its global 'b2b' marketing businesses, running its European petrochemicals marketing, supply and logistics business and financial engineering and risk management roles. She is a member of all four Board committees.

Committee membership



Key:

-  Risk Management and Audit Committee
-  Remuneration Committee
-  Nomination Committee
-  Safety, Health and Environment Committee



Amanda Mellor (50)
Non-executive director

Appointed to the Board with effect from December 2011. She is the Group Secretary and Head of Corporate Governance of Marks and Spencer Group plc, having previously been Head of Investor Relations at Marks and Spencer and Director of Corporate Relations at Arcadia Group plc. Prior to this, she worked in investment banking at James Capel and Robert Fleming. She is a member of the Council of Leeds University, where she is also a visiting professor. She is a chartered secretary and a Fellow of the Chartered Institute of Secretaries. She is the chair of the Remuneration Committee and a member of the other three Board committees.

Committee membership



Nick Winser CBE (54)
Non-executive director

Appointed to the Board with effect from March 2009. He was a member of the board of directors of National Grid plc from April 2003 to July 2014, during which time he undertook a number of senior roles within the organisation. He is a chartered engineer and a Fellow of the Royal Academy of Engineering. He is Chairman of the IET's Power Academy, Chairman of CIGRE UK and President of the European Network of Transmission System Operators for Electricity. He is the chair of the Safety, Health and Environment Committee and a member of the other three Board committees.

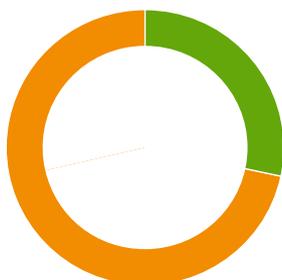
Committee membership



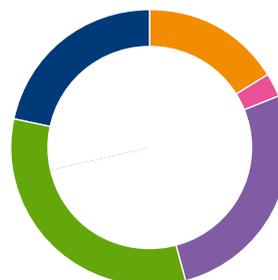
Hugh Raven (42)
Company secretary

Joined the Group in April 2010, having previously worked for top City law firms, latterly as a partner in Eversheds' corporate department. He has significant experience of a wide variety of legal and regulatory issues, having advised a number of clients in the construction sector. He has responsibility for the Group's legal affairs and is the company secretary.

Composition of the Board



Length of tenure of non-executive director



Corporate governance statement

Compliance with The UK Corporate Governance Code

The Board recognises the importance of high standards of corporate governance and is committed to managing the Group's operations in accordance with The UK Corporate Governance Code ('the Code'). A full version of the Code can be found on the Financial Reporting Council's website: <http://www.frc.org.uk>. The September 2012 edition of the Code applied throughout the year; however, the Listing Rules require the Company also to comply with the previous edition of the Code, which was issued in June 2010. The Company complied with both editions of the Code throughout the year, the Main Principles having been applied as follows:

A. Leadership	B. Effectiveness	
<p>A1 The Board's role The Board met formally 11 times during the year. There is a clear schedule of matters reserved for the Board, together with delegated authorities throughout the Group.</p> <p>A2 A clear division of responsibilities The roles of the chairman and chief executive are clearly defined. Phil White, the chairman, is responsible for the leadership and effectiveness of the Board. Haydn Mursell, the chief executive, is responsible for leading the day-to-day management of the Group within the strategy set by the Board.</p> <p>A3 Role of the chairman The chairman sets the agendas for meetings, manages the meeting timetable (in conjunction with the company secretary) and facilitates open and constructive dialogue during the meetings.</p> <p>A4 Role of the non-executive directors The chairman promotes an open and constructive environment in the boardroom and actively invites the non-executive directors' views. The non-executive directors provide objective, rigorous and constructive challenge to management and meet regularly in the absence of the executive directors.</p>	<p>B1 The Board's composition The Nomination Committee is responsible for regularly reviewing the composition of the Board. In making appointments to the Board, the Nomination Committee considers the wide range of skills, knowledge and experience required in order to maintain an effective board.</p> <p>B2 Board appointments The appointment of new directors to the Board is led by the Nomination Committee. Further details of the activities of the Nomination Committee can be found on pages 60 and 61.</p> <p>B3 Time commitments On appointment, directors are notified of the time commitment expected from them which, in practice, goes beyond that set out in the letter of appointment. External directorships, which may impact existing time commitments, must be agreed with the chairman.</p> <p>B4 Training and development All directors receive an induction on joining the Board and, as part of the annual effectiveness evaluation, the training and development needs of each director are assessed.</p>	<p>B5 Provision of information and support The chairman, in conjunction with the company secretary, ensures that all Board members receive accurate and timely information.</p> <p>B6 Board and committee performance evaluation During 2014, the Board and its committees undertook an evaluation of their respective performances during 2014. Details of the evaluation can be found on page 59.</p> <p>B7 Re-election of the directors All directors were subject to shareholder election or re-election at the 2013 annual general meeting, as will be the case at the 2014 annual general meeting.</p>
C. Accountability	D. Remuneration	E. Relations with shareholders
<p>C1 Financial and business reporting The strategic report is set out on pages 1 to 51 (inclusive) and this provides information about the performance of the Group, the business model, strategy and the risks and uncertainties relating to the Group's future prospects.</p> <p>C2 Risk management and internal control systems The Board sets out the Group's risk appetite and annually reviews the effectiveness of the Group's risk management and internal control systems. The activities of the Risk Management and Audit Committee, which assists the Board with its responsibilities in relation to the management of risk, are summarised on pages 63 to 66 (inclusive).</p> <p>C3 Role and responsibilities of the Risk Management and Audit Committee The Board has delegated a number of responsibilities to the Risk Management and Audit Committee, which is responsible for overseeing the Group's financial reporting processes, internal control and risk management framework and the work undertaken by the external auditor. The chairman of the Risk Management and Audit Committee provides regular updates to the Board.</p>	<p>D1 Levels and elements of remuneration The Remuneration Committee sets levels of remuneration appropriately so as to attract, retain and motivate the Board, but also structures remuneration so as to link it to both corporate and individual performance, thereby aligning management's interests with those of shareholders.</p> <p>D2 Development of remuneration policy and packages Details of the work of the Remuneration Committee and the approach to setting the remuneration policy can be found in the Remuneration Report on pages 67 to 85 (inclusive).</p>	<p>E1 Shareholder engagement and dialogue The Board takes an active role in engaging with shareholders. The Board particularly values opportunities to meet with shareholders and the chairman ensures that the Board is kept informed of shareholder views.</p> <p>E2 Constructive use of the annual general meeting The annual general meeting provides the Board with an important opportunity to meet with shareholders, who are invited to meet the Board following the formal business of the meeting.</p>

Board of directors

The composition of the Board and its committees during the year is set out in a table on page 58. The Board currently comprises the chairman, four other non-executive directors and two executive directors. The new finance director, Beverley Dew, will increase the number of executive directors to three.

During the course of the year, the following changes to the Board took place:

- On 31 January 2014, it was announced that Chris Geoghegan would retire as a non-executive director from the Board with effect from 21 February 2014 and that, as a result, Richard Bailey would assume the role of senior independent non-executive director, Amanda Mellor would take over as chair of the Remuneration Committee and Phil White would take over as chair of the Nomination Committee;
- On 18 February 2014, it was announced that Paul Sheffield would retire from the Board as chief executive with effect from 30 June 2014 and that Haydn Mursell would become the chief executive with effect from that date; and
- On 27 June 2014, it was announced that Kirsty Bashforth would become a non-executive director of the Company with effect from 1 September 2014.

Following the announcement of Paul Sheffield's retirement from the Board, it was agreed that, as part of the handover of duties, Haydn Mursell would begin to assume a number of the chief executive's responsibilities prior to becoming chief executive. While the Company identified a new finance director, Dave Benson (the group financial controller) acted as the interim finance director and attended all Board meetings since (and including) April 2014.

In accordance with the requirements of the Code, each of the current directors will offer himself/herself for re-election at the annual general meeting in November 2014. Following the performance evaluations of each of the non-executive directors seeking re-election, it is confirmed that the performance of each of these individuals continues to be effective and demonstrates commitment to the role. As it is the first annual general meeting since her appointment, a resolution will be proposed to elect Kirsty Bashforth as a director. Beverley Dew will not have joined the Group by the date of the annual general meeting in November 2014. However, a resolution to elect him as a director will be proposed at the 2015 annual general meeting.

All directors may serve on a number of other boards, provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company and that they obtain the agreement of the chairman to the appointment before acceptance. The major commitments of the executive and non-executive directors are outlined in their biographies on pages 54 and 55. The Nomination Committee remains satisfied that all non-executive directors have sufficient time to meet their commitments to the Company and was also satisfied that, during the year, the chairman's other commitments did not interfere with the day-to-day performance of his duties to the Company.

Roles

Summaries of the roles of the chairman, the chief executive and the senior independent non-executive director are as follows:

Chairman – Phil White

- Is responsible for the Board's effectiveness
- Sets the agenda for Board meetings, ensuring that the directors receive accurate, timely and clear information
- Facilitates the effective contribution of the non-executive directors
- Is responsible for effective communication with shareholders
- Ensures that the directors continually update their skills and knowledge, and familiarity with the Group, in order to fulfil their roles.

Chief executive – Haydn Mursell

- Is responsible for the operational management of the Group
- Is accountable to the Board for the implementation of the Group's strategy
- Meets regularly with other members of senior management, focusing on a variety of matters, including strategy, significant operational issues, succession planning and other material issues facing the Group.

Senior independent non-executive director – Richard Bailey

- Acts as chairman of the Board if the chairman is conflicted
- Acts as a conduit to the Board for the communication of shareholder concerns if other channels of communication are not appropriate
- Ensures that the chairman is provided with effective feedback on his performance.

Corporate governance statement continued

Board meetings

Details of the number of meetings of the Board and its committees held during the year, and attendance of directors at those meetings, are set out below. Outside the formal schedule of meetings, the non-executive directors met without the executive directors during the year. Meetings are normally held in Tempsford Hall, London and, when appropriate, at different regional locations and sites.

The meeting agenda for Board meetings focused on key priorities for the Group, including:

- The Group's strategy and budgets;
- The Group's annual and interim financial statements (taking into account the views of the Risk Management and Audit Committee);
- The efficiency of the Group's operating structure and cost base;
- The implications of prevailing economic conditions and the appropriate strategy relating to them;
- Potential acquisitions and disposals;
- The integration of May Gurney;
- Material operational issues and opportunities;
- Health and safety issues;
- The Group's pension schemes;

- Material human resources issues affecting the Group, including succession planning and diversity both at Board level and throughout the Group; and
- The Group's strategy with respect to disputes or proceedings (including the issues relating to the Castlepoint shopping centre car park, Bournemouth) or issues otherwise potentially adversely affecting the Group's reputation.

Senior executives are regularly invited to attend meetings for specific items.

Responsibility and delegation

The duties of, and those decisions which can only be made by, the Board are clearly defined in the schedule of matters reserved for the Board. The matters requiring Board approval include, amongst others:

- The Group's strategic plans;
- Mergers, acquisitions and disposals of a material size and nature;
- Material changes to the Group's structure and capital;
- The payment of dividends; and
- The approval of material Group policies.

Board committees

The Board has delegated certain responsibilities to its committees. The terms of reference for each committee are available on the Company's website: <http://www.kier.co.uk>.

The current membership of each Board committee is as follows:

Director	Risk Management and Audit	Remuneration	Nomination	Safety, Health and Environment
Richard Bailey	✓●	✓	✓	-
Kirsty Bashforth	✓	✓	✓	✓
Amanda Mellor	✓	✓●	✓	✓
Phil White	-	✓	✓●	-
Nick Winser	✓	✓	✓	✓●

● Denotes the chair of the relevant committee.

Board and committee meeting attendance

Board and committee attendance during the year was as follows:

	Board (11)	Risk Management and Audit (4)	Remuneration (3)	Nomination (3)	Safety, Health and Environment (4)
Richard Bailey	11	4	3	3	-
Steve Bowcott	11	-	-	-	-
Chris Geoghegan ¹	5	2	1	-	-
Amanda Mellor	11	4	3	3	4
Haydn Mursell	11	-	-	-	-
Paul Sheffield ²	7	-	-	-	-
Phil White	11	-	3	3	-
Nick Winser	11	4	3	3	4

¹ Retired from the Board with effect from 21 February 2014. He attended all Board meetings and those of the committees of which he was a member up to (and including) the December 2013 meetings.

² Retired from the Board with effect from 30 June 2014. He attended all Board meetings up to (and including) the March 2014 meeting.

The principal activities of each of these committees during the year are set out in their respective reports on pages 60 to 85 (inclusive). Executive directors also attend meetings of the committees when required by the chair of the relevant committee to do so.

Professional advice and Board support

All directors have access to the advice and services of the company secretary and the directors are also able to seek independent professional advice, if necessary, at the Company's expense. Training is available for new directors and subsequently as is considered necessary.

Induction

On appointment, each director takes part in an induction programme, during which (s)he:

- Receives relevant information relating to the Group;
- Meets members of senior management below Board level;
- Meets representatives of the Company's key advisers;
- Receives information about the role of the Board and matters reserved for its terms of reference and membership of Board committees and the powers delegated to these committees;
- Is advised of the legal and other duties and obligations of a director of a listed company; and
- Visits key sites and locations within the Group.

Kirsty Bashforth was appointed to the Board with effect from 1 September 2014. Kirsty's induction, which was organised by the company secretary, has included each of the elements set out above.

Board performance evaluation

During the year, an external evaluation of the Board's performance, the performance of its individual directors and that of its committees was carried out by Independent Board Evaluation (which has no other connection with the Company).

The aim of the evaluation was to obtain the views of Board members that would:

- Provide an insight into the Board's effectiveness;
- Highlight actions required to improve its performance; and
- Establish a benchmark for measuring future progress.

The review process comprised:

- Attendance at a Board meeting and meetings of each of the Board committees;
- Formal, structured meetings with all members of the Board and the company secretary;
- Meetings with members of senior management below the Board; and
- Meetings with key advisers to the Board.

The areas covered by the evaluation included:

- Board culture;
- Time management;
- Composition of the Board;
- Processes and support;
- Governance and compliance;
- Risk management;
- Succession planning;
- Board focus, including priorities; and
- The Board's role in the development of the Group's strategy.

The evaluation process concluded that the Board had experienced a challenging year, having taken some significant decisions and, at the same time, changed its composition. Overall, the Board members felt that the Board operated effectively in terms of its culture and decision-making. However, the feedback also identified opportunities for the Board to improve its effectiveness and, during the year ending 30 June 2015, the Board plans to:

- Focus on succession planning for the senior management team;
- Continue to ensure that sufficient time is set aside to focus on strategy;
- Enhance the quality of the information provided to the Board;
- Keep the schedule of Board and committee meetings under review to ensure that the Board continues to develop its knowledge of the business; and
- Strengthen the resources available to support the Board.

Relations with shareholders

The Company regularly communicates to and meets investors, investment analysts and brokers, delivering detailed presentations when it releases its annual and interim results and its interim management statements. These assist the Board to understand the views of major shareholders about the Group's performance and its strategic objectives. Independent feedback is also provided to the Board by analysts and institutional shareholders.

The Board invites investors, brokers and analysts to visit the Group's projects to demonstrate the scope and scale of its activities and to more formal 'investor days'. These site visits also include a series of presentations by members of the Board and members of senior management about the Group's operations.

The Board uses the annual general meeting as an opportunity to communicate directly with shareholders. The chairman of the Board also meets regularly with individual shareholders to obtain their views on a variety of matters, as does the chair of the Remuneration Committee in relation to remuneration matters.

The Group regularly engages with a range of stakeholders (including shareholders) in relation to its corporate responsibility (CR) programme. During the year, it also liaised with a number of shareholders in relation to environmental, social and governance issues, in particular obtaining their views on its CR strategy and reporting, to ensure that the Group's priorities are aligned with those of its key stakeholders. Further information can be found on pages 28 to 31 (inclusive).

Nomination Committee report



Phil White – Committee Chair

Dear shareholders,

The principal purpose of the Nomination Committee ('the Committee') is to lead the process for the appointment of new directors to the Board (whether executive or non-executive), ensuring that the Board has an appropriate balance of skills, experience, independence and knowledge. In particular, the Committee is responsible for Board succession in order to ensure that the composition of the Board is appropriate to manage future growth.

The Committee oversaw a number of changes to the Board during 2014 and its role in relation to each of these changes is set out below. The appointments of both Haydn Mursell as chief executive and Kirsty Bashforth as a non-executive director illustrate the Board's commitment to planning succession and diversity.

One of the key areas of focus for the financial year ending 30 June 2015 will be to continue to work with the executive management on succession planning, ensuring that the future leaders of the business are identified and developed.

Composition

The members of the Committee are:

- Phil White (chair)
- Richard Bailey
- Kirsty Bashforth
- Amanda Mellor
- Nick Winser

At the invitation of the Committee, any other director or other person may attend meetings of the Committee. The secretary of the Committee is the company secretary. The Committee met formally three times in 2014.

Role

The role of the Committee includes:

- Regularly reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes;
- Identifying, reviewing and recommending candidates to the Board; and
- Considering succession planning for the Board and other senior executives, taking into account the challenges and opportunities facing the Group and the skills and expertise required by the Board in the future.

Chief executive succession

The major decision taken by the Committee during the year related to the chief executive's succession.

The Committee assessed the skills, competencies and qualities required for the position and JCA Group, which is a signatory to the Voluntary Code of Conduct for Executive Search Firms, was engaged to undertake the search to identify potential candidates. JCA Group has no other connection with the Group. The Committee assessed and compared the merits of the candidates, before recommending the appointment of Haydn Mursell to the Board. When making its recommendation, the Committee noted that Haydn was well-regarded by key stakeholders (in particular, shareholders and employees) and had gained significant experience of the Group's operations since joining in 2010, having assumed operational responsibility for the property division in June 2013.

Finance director

The Committee also engaged JCA Group to identify a finance director following Haydn's appointment as chief executive. Having interviewed and assessed a number of internal and external candidates, the Committee recommended to the Board that Beverley Dew should be appointed to the role. The Committee was impressed, in particular, with Beverley's recent experience of operating within the construction, services and residential sectors. The Committee was of the opinion that he would work well with the other members of the Board and would provide appropriate challenge to the other executive directors and support to the Board on financial and other matters affecting the Group.

Changes to non-executive roles

Following the retirement of Chris Geoghegan from the Board in February 2014, the Committee recommended that the Board should make the following changes to the roles of the non-executive directors:

- Richard Bailey became the senior independent non-executive director, in addition to his existing role as the chair of the Risk Management and Audit Committee;
- Amanda Mellor became the chair of the Remuneration Committee; and
- I took on the role of chair of the Nomination Committee.

The Committee was of the view that each of these individuals had recent and relevant experience for their new roles.

Appointment of non-executive director

Following Chris Geoghegan's retirement from the Board, the Committee considered the overall composition of the Board. The Committee agreed that the Board needed to appoint a non-executive director so as to ensure an appropriate balance between the number of executive and non-executive directors, in terms of their respective skills, experience, independence and knowledge.

When considering the required skills and experience of the new non-executive director, the Committee focused on the recent significant change in the business and decided to appoint an individual with experience in organisational design. As Head of Organisational Effectiveness at BP plc, Kirsty Bashforth has recent and relevant experience in this area and is highly regarded within the organisation, having worked closely with members of BP's senior management over a number of years in a variety of different roles. A brief biography setting out Kirsty's experience is set out on page 54. Having identified its requirements, and on the basis of its own, internal process (which included taking references from senior and experienced sources), the Committee did not consider it necessary to use an external search consultancy or advertising in relation to the appointment.

The Committee welcomes the introduction of provisions in the Code which require the consideration of diversity at board level. However, the Committee does not consider that the setting of targets is necessarily in the best interests of the Group and, instead, prefers to consider all aspects of diversity (including gender) when assessing the composition of the Board and any future appointments. The range of skills and experience which the last two non-executive directors to have been appointed, Kirsty Bashforth and Amanda Mellor, bring to the Board clearly demonstrate the Committee's commitment to diversity.

Priorities for 2015

The priorities for the Committee during 2015 will include:

- Ensuring that the results of the 2014 Board performance evaluation process are implemented satisfactorily;
- Overseeing the completion of Kirsty Bashforth's induction;
- Ensuring that, upon arrival, Beverley Dew receives an appropriate induction; and
- Senior management succession planning to establish the internal pipeline for potential Board members, ensuring that the future leaders of the Group are identified.

The terms of reference for the Committee can be viewed on the Company's website: <http://www.kier.co.uk>.

Phil White

Chair of the Nomination Committee

Safety, Health and Environment Committee report



Nick Winser – Committee Chair

Dear shareholders,

The health and safety of all those who visit and work on the Group's sites, together with the protection of the environment, have been and will remain key priorities for Kier. It is therefore important that the Group has a well-established and robust governance structure, led by the Safety, Health and Environment Committee ('the Committee'), to ensure that safety, health and environmental ('SHE') matters are appropriately managed by the Group.

During the year, the Committee has continued to focus on assisting management to drive the continuous improvement of SHE practices throughout the Group. At a strategic level, the principal focus has been on integrating May Gurney's culture, policies and procedures with respect to SHE matters. Further details on the Committee's activities during the year are set out below.

Composition

The members of the Committee are:

- Nick Winser (chair)
- Kirsty Bashforth
- Amanda Mellor

The executive directors and the health and safety director are invited, and expected, to attend meetings, unless they are notified to the contrary. The secretary of the Committee is the company secretary. The Committee met formally four times in 2014.

Role

The role of the Committee includes:

- Assisting the Board to review the Group's strategy with respect to SHE matters;
- Encouraging management commitment and accountability with respect to managing the Group's SHE risks;
- Reviewing and, as necessary, approving material Group-wide SHE initiatives, policies and procedures;
- Receiving reports on any major health and safety or environmental incidents; and
- Reviewing the Group's exposure to SHE risks and monitoring the Group's performance against SHE targets.

Principal activities in 2014

Kier's accident incidence rate ('AIR') decreased by 26% since 30 June 2013 and May Gurney's AIR also decreased significantly, by 43%, since the acquisition of the business in July 2013. However, despite the overall improvement in the Group's AIR, two fatalities occurred on sites operated

by Kier (in joint venture), in Hong Kong and at the Holborn site of the Crossrail project. The Committee's focus was to ensure that the investigations relating to the incidents were appropriately and thoroughly conducted, the business co-operated with all key stakeholders (including relatives, joint venture partners, clients and regulatory bodies), remedial actions were taken promptly and that the learning points from the incidents were appropriately communicated across the Group and implemented in its safety procedures.

During the year, other areas of focus for the Committee included:

- Ensuring the effective integration of May Gurney's SHE policies and procedures within those previously used by Kier to ensure a consistency of approach across the Group;
- Ensuring that management's responses to regulatory investigations by the Health and Safety Executive and the Environment Agency into incidents on the Group's sites were appropriate;
- Ensuring that management closed-out any remedial actions after the reporting of 'high potential' incidents; and
- Assisting management to continue to promote the benefits of, and encourage, the reporting of 'high potential' incidents and to ensure the communication of the learning points from such incidents across the Group.

Priorities for 2015

The priorities for the Committee in 2015 will include:

- Providing oversight of, and support to management in relation to, the launch of a re-branded set of Group-wide SHE policies and procedures;
- Working with management to ensure an appropriate level of senior leadership visibility on sites;
- Challenging management to continue to reduce the Group's AIR; and
- Assisting management in the appointment of a new Group SHE director, following the departure of the previous director in August 2014.

The terms of reference for the Committee can be viewed on the Company's website: <http://www.kier.co.uk>.

Nick Winser

Chair of the Safety, Health and Environment Committee



Richard Bailey – Committee Chair

Dear shareholders,

The Risk Management and Audit Committee ('the Committee') supports the Board in maintaining sound risk management and internal control procedures. The Committee's responsibility is to ensure that appropriate corporate reporting, risk management and internal control systems are applied throughout the Group.

The Committee follows a defined programme of work and review to coincide with key events in the reporting year. The Committee reports formally and regularly to the Board on its work.

During the year, the Committee continued to: examine closely the integrity of the Group's financial statements to ensure that they were prepared to the highest standards, provide the Board with periodic reviews of the effectiveness of the Group's risk management and internal control systems, scrutinise the work of the internal auditor, having previously approved the programme of audit work, and supervise the resolution of key issues arising from this work.

Composition

The members of the Committee are:

- Richard Bailey (chair)
- Kirsty Bashforth
- Amanda Mellor
- Nick Winser

Richard Bailey, a chartered accountant and chairman of Rothschild's regional business, is considered by the Board to have recent and relevant financial experience.

The finance director and the director responsible for internal audit also attend meetings. The chair of the Board is invited to attend the Committee meetings. The PricewaterhouseCoopers LLP ('PwC') internal audit representative and the executive directors also attend when it is considered necessary or relevant for them to do so.

The external audit partner from KPMG attended all of the meetings during the year and often met the chair of the Committee without management being present.

The secretary of the Committee is the company secretary. The Committee met formally four times in 2014.

Role

The role of the Committee includes:

- Examining the integrity of the Group's financial statements and challenging significant financial reporting judgements and decisions;
- Reviewing the adequacy and effectiveness of the Group's internal control and risk management systems;
- Reviewing the adequacy of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible misdemeanours – i.e. 'whistle-blowing';

Principal activities in 2014

The following matters were considered during the Committee meetings which took place during the year:

	Sept	Dec	Feb	June
Financial reporting				
Full-year results and announcements	X			
Half-year results and announcements			X	
Going concern	X		X	
Tax report	X		X	
External audit				
General update	X		X	X
Management representation letter	X			
Evaluation of external audit	X			
Recommendation of re-appointment	X			
Non-audit fees	X		X	
External audit plan			X	X
Internal audit				
General update	X	X	X	X
Evaluation of internal audit				X
Internal audit plan				X
Other				
Risk management (including 'whistle-blowing')		X		X
Compliance with corporate governance requirements (including 'fair, balanced, understandable' requirement)	X		X	X

Risk Management and Audit Committee report

continued

- Reviewing the Group's procedures for detecting fraud;
- Appraising the effectiveness of the Group's internal audit function, setting the topics to be covered each year and reviewing the results of the work; and
- Testing the independence and objectivity of the external auditor (in accordance with the requirements of the Code).

Risk management and internal controls

The nature of the Group's work and the business environment in which it operates are inherently risky. However, the Committee recognises that the success of the Group's business strategy is closely related to its ability to identify and manage risk effectively. Risk is managed at all levels throughout the Group by identifying key risks and assessing the effectiveness of controls to mitigate them.

The Committee regularly reviews the effectiveness of the Group's internal controls and risk management procedures. These serve to mitigate, not eliminate, risk. This year, management conducted a comprehensive review of risk throughout the Group to identify, so far as practicable, all significant risks. Based on that work, a new risk register has been developed, which will inform future control procedures. No major risks were identified that were not already covered by the Group's control framework. Further, no material risk management or internal control failures have been identified in the application of the existing procedures that require disclosure in this report.

The Committee also reviewed the adequacy and security of the Group's 'whistle-blowing' arrangements, which exist to enable employees and contractors to raise confidentially any concerns over possible misdemeanour. The Committee considers the current arrangements to be appropriate, but will review them annually.

For further information, please see the information in the paragraphs entitled 'How the Group manages risk and assurance' and 'Risk management process'.

Internal audit

The Committee tests and reviews continually the effectiveness of the internal audit function, recognising its importance to the management of risk as well as organisational efficiency. It does so by examining the audit work conducted by PwC, reviewing the response of management to issues which are identified and overseeing the implementation of any changes deemed necessary.

The Committee considers that the internal audit function fulfilled its objectives for the year. Its findings were used by the Committee and PwC in forming the internal audit plan for the 2015 financial year.

External audit

The Board and the Committee consider the objectivity and effectiveness of the Group's auditor to be of paramount importance. At the beginning of the year, the Committee reviewed and challenged the external audit plan to ensure that KPMG, having identified potential areas of concern, significant risks and control procedures, would employ effective audit procedures to examine them. Having reviewed KPMG's performance following the implementation of these procedures, the Committee concluded that the external auditor had operated effectively.

The independence of the Group's external auditor is key. KPMG has audited the Group's financial statements for over 10 years and the Committee therefore deemed it

appropriate to ask four other firms to tender for the work. Having conducted a comprehensive tender process, the Board agreed that, at the November annual general meeting, it would propose the appointment of PwC as the external auditor for the 2015 financial year. Upon appointment, PwC will cease to provide internal audit services to the Group.

Fees relating to the provision of non-audit services by the external auditor, other than routine taxation advice, must be referred to and agreed by the Committee, so that it can be satisfied that the external auditor's objectivity and independence have not been compromised, notwithstanding the provision of non-audit services in the year.

The fees paid to KPMG during the year in respect of non-audit services were £855,000 (2013: £1,177,000), of which £678,000 related to advice in connection with the Group's business-efficiency programme, £112,000 to tax advice (and providing tax-related software licences), £45,000 to the auditing of the corporate responsibility annual report, and £20,000 to assistance with respect to the audit tender process. The audit fees for the year were £843,000. The total fees for non-audit services represented approximately 101% of the audit fees paid for the year (2013: 162%). All figures exclude VAT.

Before engaging KPMG in relation to the Group's business-efficiency programme, the Board asked three firms of an appropriate size with recent and relevant experience to tender for the work. In light of the size and complexity of the Group's business and operations, and KPMG's recent and relevant experience having conducted similar exercises elsewhere in the construction sector, the Board decided that KPMG was the best equipped to conduct the exercise. Before the work began, and at the Board's request, KPMG established an appropriate ethical division between its audit team and the consultancy team which undertook the work.

As part of the audit process for the year ended 30 June 2014, KPMG confirmed that, with respect to this period, it was independent within the meaning of applicable regulatory and professional requirements. Taking this into account, and having considered the steps taken by KPMG to preserve its independence, the Committee concluded that the external auditor's independence was not compromised, notwithstanding the level of non-audit fees.

Financial statements

The Committee is responsible for reviewing the suitability of the Group's accounting policies and the appropriateness of management's estimates and judgements in preparing the financial statements. As part of its review of the Group's financial statements, the Committee considered the areas set out below under 'Significant accounting judgements'. In reaching its decision on these judgements, the Committee considered the accuracy of historical forecasts and external audit reports on the positions taken by management and discussed these reports with the external auditor and management. On the basis of these discussions, and drawing on its own recent and relevant financial experience, the Committee concluded that management's judgement had been reasonable.

Significant accounting judgements

During the year, the Committee reviewed the following significant issues:

- The distinction between underlying and non-underlying items and their presentation, including costs relating to the acquisition of May Gurney and business

restructuring and transformation costs following this acquisition. See note 4 to the consolidated financial statements;

- The assumptions and judgements made by management in relation to the accounting for significant contracts, such as the Castlepoint shopping centre car park;
- The extent to which the preparation of the financial statements comply with Group revenue and profit recognition policies and, in particular, the measurement of profits derived from long-term contracts at their various stages of completion, as well as the level of liabilities in respect of completed contracts. See note 1(a) to the consolidated financial statements under 'Accounting estimates and judgements';
- The assumptions underlying the calculation of defined benefit pension liabilities. See note 8 to the consolidated financial statements;
- The work undertaken by management to support the going concern statement, taking into account funding available to the Group (£315m and US\$28m committed borrowing facilities) and the Group's compliance with the financial covenants contained in its principal facility agreements;
- The assumptions and judgements underlying the valuation of property land and work in progress. See note 1(b) to the consolidated financial statements under 'Accounting estimates and judgements';
- The fair value valuation of intangible assets, provisions and liabilities in respect of the May Gurney acquisition. See note 1(c) (under 'Accounting estimates and judgements') and note 30(b) to the consolidated financial statements; and
- The recoverability of goodwill in respect of the May Gurney acquisition. See note 1(g) (under 'Accounting estimates and judgements') and note 12 to the consolidated financial statements.

Fair, balanced and understandable

The Board sought advice from the Committee that the information presented in this annual report, when taken as a whole, is fair, balanced and understandable and contains the information necessary for shareholders to assess the Group's performance, business model and strategy.

The steps taken by the Committee, or on its behalf, to provide this advice to the Board included:

- Setting up a committee of senior individuals within the Group to draft the annual report, with each of these individuals having responsibility for the production of certain sections of the document;

Roles and responsibilities

A summary of the roles and responsibilities of the Board, its committees and management with respect to risk management is set out below:

Board/Committee etc.	Responsibilities	Activities
Board	<ul style="list-style-type: none"> • Responsible for the Group's system of risk management and internal control • Determines the Group's appetite for risk in achieving its strategic objectives 	<ul style="list-style-type: none"> • Issues and reviews the Group risk management and assurance standards • Reviews the Group's key risks and how they are mitigated
Risk Management and Audit Committee	<ul style="list-style-type: none"> • Regularly reviews the effectiveness of Group internal controls, including systems to identify, assess, manage and monitor risks 	<ul style="list-style-type: none"> • Receives regular reports on internal and external audit and other assurance activity • Annually assesses the effectiveness of risk management and internal controls
Risk Review Committee	<ul style="list-style-type: none"> • Reviews risks identified during tenders 	<ul style="list-style-type: none"> • Reviews proposals to mitigate risks which have been identified

- Holding regular meetings of this committee to discuss and agree significant disclosure items;
- Each of the committee members retaining copies of supporting materials and confirming that, in their opinion, the sections drafted by them were 'fair, balanced and understandable';
- Arranging for KPMG and Futurevalue (a corporate reporting consultancy) to review the annual report in light of the requirement and for Kepler Associates, the Company's remuneration consultants, to review the directors' remuneration report;
- Circulating drafts of the annual report to the Committee and the Board to ensure that the document reflected the directors' views of the material issues facing the Group; and
- Discussing material disclosure items at a meeting of the Committee.

How the Group manages risk and assurance

The Board is responsible for the Group's systems of risk management and internal control. It is also responsible for the Group risk management and assurance standard which sets out the mechanisms of control and the reporting structure. Key risks are regularly examined and the action plans to mitigate the risks reviewed.

The Board has delegated to the Committee responsibility for reviewing the effectiveness of the Group's systems of internal control, including those established to identify, assess, manage and monitor risk and to provide assurance. The risks and the controls designed to mitigate them are continuously monitored and a report of the key risks and an assessment of these controls is reviewed by the Committee twice a year. The last report was prepared in March 2014 and reviewed at the June 2014 Committee meeting.

Key actions which the Group has taken to mitigate risk include:

- The establishment of the Risk Review Committee which reviews risks arising during tenders for new contracts;
- The establishment of the Investment Committee to review risks relating to investment decisions taken by the Group;
- Issuing the Group's standing orders which set out delegated authorities within which the Group operates. These are supplemented by standing orders which apply at divisional and business unit levels; and
- Setting up a number of Group-wide committees to ensure that key risks are managed appropriately. These include the Group's Safety, Health and Environment Committee and committees which focus on the management of IT risks relating to the Group.

Risk Management and Audit Committee report

continued

Board/Committee etc.	Responsibilities	Activities
Investment Committee	<ul style="list-style-type: none"> Reviews and approves investment decisions with the aim of optimising the allocation of available capital 	<ul style="list-style-type: none"> Reviews and approves investment/divestment proposals
Executive management team	<ul style="list-style-type: none"> Strategic leadership Responsible for ensuring the Group's risk management policy is implemented and embedded Ensures appropriate actions are taken to manage key risks 	<ul style="list-style-type: none"> Strategic and annual planning process Reviews risk management processes and assurance activity Monthly/quarterly finance and performance reviews
Divisional management	<ul style="list-style-type: none"> Responsible for risk management and internal controls within their division Ensures that business units' responsibilities are discharged 	<ul style="list-style-type: none"> Reviews the division's key risks and mitigations Reviews results of assurance activity Escalates key risks to the executive management team and the Board
Business unit management	<ul style="list-style-type: none"> Maintains an effective system of risk management and internal control within their business unit and projects 	<ul style="list-style-type: none"> Maintains and regularly reviews project and business risk registers, including the effectiveness of mitigations

The Group has clear policies and procedures (for example, those contained in the Group Finance Manual) to ensure conformity, reliability and accuracy in financial reporting, including the process for preparing consolidated accounts.

Risk management process

The Group's risk management and assurance process identifies and addresses the key risks in the business, including those identified as potentially affecting the delivery of the Group's strategy. Significant risks are reviewed annually by the Board and the executive management team to identify any new risks which have arisen as a result of changes within the Group or the markets within which it operates. On a quarterly basis, the senior management team of each operating business reviews its risk registers and analyses the likelihood of each risk occurring and its potential impact on the business to estimate the gross risk.

After developing and assessing processes designed to mitigate the gross risk, the business assesses the likelihood and impact of each risk to estimate the net risk. Where the net risk is deemed to be too large or existing mitigations are recognised as inadequate, remedial action plans are agreed and implemented. These risk registers are consolidated quarterly to provide a view of the principal risks affecting the Group. The key assurance activities carried out across the Group (for example, internal audit review) are determined after the risk consolidation process has been completed. The Committee oversees the risk management process, from identification through to assurance, and reviews it every six months. The process is also reviewed by the executive management team every three months.

A summary of the Group's risk management process is set out below:



The Committee concluded that the Group maintained sound risk management and internal control systems throughout the year ended 30 June 2014.

The terms of reference for the Committee can be viewed on the Company's website: <http://www.kier.co.uk>.

Richard Bailey
Chair of the Risk Management and Audit Committee



Amanda Mellor — Chair of the Remuneration Committee

Dear shareholders,

I am pleased to present the directors' remuneration report for 2014. This report is divided into two sections, the policy report and the annual report on remuneration, and, in accordance with the new regulations relating to the reporting of executive remuneration, shareholders will be asked to vote separately on these reports at our annual general meeting in November 2014.

The remuneration framework at Kier is designed to provide a clear link between executive remuneration and the Group's performance and the delivery of its strategy, while balancing the interests of shareholders, management and other stakeholders.

The Remuneration Committee consulted with shareholders and shareholder representative bodies on the remuneration policy for 2014 and its implementation and was grateful for their constructive engagement throughout this process. The Committee has endeavoured to reflect, and balance, the range of feedback received in both the remuneration policy and its application for the 2015 financial year.

Strategic alignment of remuneration policy

The Group's strategy is to generate sustainable growth in its chosen markets and to deliver increasing levels of profit for its shareholders, together with robust and reliable cash flows. The Committee's approach to executive remuneration seeks to motivate and reward delivery of this strategy and year-on-year performance.

The Kier executive remuneration framework comprises base salary, benefits, cash and shares awarded under an annual bonus scheme and shares awarded under a long-term incentive plan ('the LTIP'). Incentive schemes are performance-related and are assessed against a range of financial and operational targets, measured over the short, medium and long term. Profit and cash are the two key measures of financial performance for the annual bonus. Incentive schemes are subject to a three-year deferral or performance period in order to encourage retention and to align the interests of directors with those of shareholders. Executive directors are also encouraged to accumulate a shareholding of at least two years' base salary over a period of up to five years – please see pages 72 and 81 for further details.

Key remuneration issues during the year

- With effect from 1 July 2014, the average salary increase across the Group was 5%, reflecting the high level of salary inflation across the market after several difficult years;
- Following the acquisition of May Gurney and a restructuring of the Board in June 2013, Ian Lawson left Kier in September 2013. Details of Ian's termination arrangements are set out on page 80;
- At the same time, Steve Bowcott was appointed chief operating officer with responsibility for both the Construction and Services divisions and Haydn Mursell assumed operational responsibility for the Property division, in addition to his responsibilities as finance director. As outlined in our remuneration report last year, the Committee consulted extensively with shareholders during the summer of 2013 on the remuneration arrangements to reflect the enhanced roles for Haydn and Steve. Following this consultation, revised remuneration arrangements were put in place, phased over the 2014 and 2015 financial years and subject to continued satisfactory performance. These included increases in base pay, in addition to the average annual pay review across the Group, and an increase in awards under the LTIP from 100% to 150% of base salary for 2014 and 2015. The additional 50% opportunity in the 2014 financial year related to a specific return on capital employed (ROCE) target for May Gurney, in addition to the standard measures of earnings per share ('EPS') and total shareholder return ('TSR'), which have been used since 2010. This reflected feedback from shareholders who required a focus for the successful integration of the newly-acquired business, to ensure that the expected synergies in the 2016 financial year would be delivered. The maximum annual bonus opportunity remained at 100% of base salary;
- In February 2014, the Company announced that Paul Sheffield would be standing down as chief executive from 30 June 2014 and that Haydn Mursell would succeed Paul as chief executive from that date. Details of Paul's termination arrangements are set out on page 80; details of Haydn's remuneration in his new role are set out on page 84. In considering the revised remuneration arrangements for Haydn, the Committee took into account his experience, the complexity of the role, market comparators and the 'fair value' of his overall remuneration. Having taken into account these factors, the Committee considered it appropriate to appoint Haydn on the same terms as the outgoing chief executive and that it was not necessary to require him to serve a probationary period. The Committee believes

Directors' remuneration report continued

that his overall remuneration is competitive, but is also slightly below market median;

- The Committee believes in pay for performance and ensures that targets are stretching and linked to those measures necessary to ensure the long-term success of the Group. Annual bonus measures are primarily financial, but also include a number of non-financial measures in order to ensure a balanced view of the Group's performance. This year, therefore, while good progress was made against both profit and cash targets, the Committee used its discretion not to permit a bonus payout with respect to the health and safety targets as a result of fatalities having occurred on Kier's sites during the year. The Committee also decided not to pay the discretionary element of the bonus because of these safety issues; and
- LTIP awards granted in 2011 were measured during the three-year period ended 30 June 2014 against challenging EPS and TSR targets. As a result of performance against these targets, the executive directors will receive 32.7% of the award when it vests in November 2014.

Remuneration arrangements for the current financial year

To ensure that the remuneration arrangements remain aligned with the Company's strategic priorities and stakeholders' views, the Committee proposes minor amendments to the executive remuneration arrangements for the current financial year. These are:

- Following discussions with shareholders, and having reviewed the LTIP performance measures to ensure that they remain appropriate, the Committee has decided to revert to the measures used since 2010 for future LTIP awards, namely EPS and TSR. The performance period for the LTIP awards granted in October 2013 ends on 30 June 2016, which is also the end of the period in which the full annual run rate of synergies is expected to have been delivered from the acquisition of May Gurney. As a result, the Committee considered that the May Gurney ROCE element would no longer be a relevant performance measure for future LTIP awards; and
- The focus on performance has been further emphasised by the introduction of a 'malus' provision for LTIP awards granted from 2014, providing the Committee with discretion to reduce or cancel unvested awards in circumstances which it considers to be appropriate, including, for example, a material mis-statement of the Group's audited results.

The Committee decided that the awards under the annual bonus plan will remain at 100% of base salary, with one-third of any award being deferred into shares for three years.

Conclusion

I hope that you will find this new style of report helpful. The Committee has sought to increase the levels of disclosure and transparency with respect to executive remuneration at Kier and to share with shareholders how it seeks to balance various considerations and interests in a fair way for the long-term success of the Group. Linking pay to the Group's performance and reflecting the views of shareholders are fundamental to the remit of the Committee. The Committee will, therefore, continue to engage with shareholders to ensure that the Group's remuneration framework and targets remain appropriate going forward.

Amanda Mellor

Chair of the Remuneration Committee

Compliance statement

This report complies with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules and applies the Main Principles relating to remuneration which are set out in The UK Code on Corporate Governance.

The information contained in the following parts of this report have been audited: the table containing the single total figure of remuneration for directors and accompanying notes on page 77, pension entitlements on page 79, incentive awards made during the year on pages 79 and 80, payments to past directors on page 80, payments for loss of office on page 80 and the statement of directors' shareholdings and share interests on page 81.

The remuneration policy report

This section of the report sets out the policy for the directors' remuneration at Kier, which shareholders are asked to approve at the 2014 annual general meeting. The policy will take effect from the date of that meeting (subject to shareholder approval).

Policy table

Details of the Group's policy for each element of an executive director's remuneration are set out in the table below.

Element and link to strategy	Operation	Opportunity	Performance measures
Base salary To attract and retain executive directors of the calibre required to deliver the Group's strategy.	Salaries are reviewed annually by reference to an individual's experience, performance and role within the Group, the external market (including FTSE companies of a similar size and sector peers) and any increase awarded to the wider employee population. Any increase is typically effective from 1 July.	Any increase will typically be in line with those awarded to the wider employee population. The Committee has discretion to award higher increases in circumstances that it considers appropriate, such as a material change in the complexity of the business or an individual's responsibility. Details of salary changes will be disclosed in the annual report.	Continued strong performance.
Benefits To provide benefits which are competitive with the market.	Benefits are reviewed from time to time and typically include, but are not limited to, a company car or car allowance, private health insurance and life assurance. In certain circumstances, the Committee may also approve the provision of additional benefits or allowances – for example, the relocation of an executive director to perform his or her role.	Benefits are set at a level which the Committee considers appropriate in light of the market and an individual's circumstances.	None.
Save As You Earn (SAYE) Scheme To encourage ownership of the Company's shares.	An HMRC-approved scheme allowing all employees, including executive directors, to save up to the maximum limit specified by HMRC rules. Options are granted at up to a 20% discount.	The maximum amount that may be saved is the limit prescribed by HMRC (or such other lower limit as determined by the Committee) at the time employees are invited to participate in the scheme. Typically, employees are invited to participate on an annual basis.	None.
All Employee Share Ownership Plan (AESOP) To encourage ownership of the Company's shares.	An HMRC-approved scheme which is open to all UK tax resident employees of participating Group companies. Executive directors are eligible to participate. The plan allows employees to purchase shares out of pre-tax income. The Company may match shares purchased with an award of free shares. Matching shares may be forfeited if employees leave within three years of their award, in accordance with the AESOP rules. The plan trustee can reinvest cash dividends to acquire further shares on behalf of participants.	Participants can purchase shares up to the prevailing limit approved by HMRC (or such other lower limit as determined by the Committee) at the time they are invited to participate. The Company currently offers to match purchases made through the plan at the rate of one free share for every two shares purchased.	None.

Directors' remuneration report

continued

Element and link to strategy	Operation	Opportunity	Performance measures
<p>Pension</p> <p>To provide a retirement benefit which is competitive with the market.</p>	<p>Executive directors participate in a defined contribution scheme.</p>	<p>For current executive directors, the maximum employer contribution is 20% of pensionable salary.</p> <p>Executive directors may elect to receive all or part of the employer contribution as a taxable cash supplement.</p>	<p>None.</p>
<p>Annual bonus</p> <p>To reward the delivery of near-term performance targets and business strategy.</p>	<p>The Company operates a discretionary bonus scheme.</p> <p>Performance measures and targets are set by the Committee at the start of the year. Payments are based on an assessment of performance at the end of the year.</p> <p>One-third of any award is deferred for three years (subject to early release for 'good leavers') and satisfied in Kier Group plc shares.</p> <p>Past awards of deferred shares are subject to forfeiture if an individual's employment is terminated in circumstances of gross misconduct and/or justifying summary dismissal and/or the Group's profit before tax or cash position for the relevant year is found to have been mis-stated.</p> <p>Awards of deferred shares made from 2014 will include a revised 'malus' provision. See 'Malus' on page 72.</p> <p>Dividend payments accrue on deferred bonus shares over the deferral period.</p>	<p>The current maximum potential bonus is 100% of base salary.</p> <p>'Threshold' performance, for which an element of bonus may become payable under each component of the annual bonus, is set by the Committee at the start of each financial year.</p> <p>The level of bonus for achieving threshold performance varies by performance measure, and may vary for a measure from year to year, to ensure that it is aligned with the Committee's assessment of the degree of difficulty (or 'stretch') in achieving it.</p>	<p>The performance measures and targets for the financial year ending 30 June 2015 are profit (55%), cash (25%), health and safety (10%) and personal performance (10%).</p> <p>The Committee has discretion to determine the measures and their relative weightings each year. The weighting towards non-financial measures will be no higher than 25% of the maximum potential bonus.</p> <p>The Committee has discretion to adjust bonus payments to ensure that they accurately reflect business performance over the performance period and are fair to shareholders as well as recipients.</p> <p>Actual targets for each performance measure (and performance against each of these targets), and any use by the Committee of its discretion with respect to bonus payments, will be disclosed in the annual report immediately following the end of the performance period.</p>

Element and link to strategy	Operation	Opportunity	Performance measures
<p>Long-term Incentive Plan (LTIP) To reward the sustained strong performance by the Group over three years.</p>	<p>Awards are made annually and vest, subject to the achievement of performance conditions, at the end of a three-year performance period.</p> <p>At the start of each performance period, the Committee sets performance targets which it considers to be appropriately stretching.</p> <p>Awards are satisfied in the form of a deferred, contingent right to acquire shares in the Company, at no cost to the individual.</p> <p>LTIP awards granted from 2014 will include a 'malus' provision. See 'Malus' on page 72.</p> <p>If an event or series of events occur as a result of which the Committee deems it fair that the performance conditions should be waived or modified, the Committee has discretion during the vesting period to waive or modify them. Any modified performance conditions must be no more difficult to satisfy than the original performance conditions were when first set.</p> <p>Any use of Committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant annual report.</p>	<p>The maximum award under the rules of the plan is 200% of base salary.</p> <p>The Committee may grant awards of up to the maximum permitted under the LTIP rules when it considers it appropriate to do so. The reasons for an award in excess of 150% of salary will be disclosed in the relevant annual report.</p> <p>On achieving the threshold performance level for each element of the award, 25% of the relevant element of the award will vest. Vesting is on a straight-line basis between threshold and maximum levels of performance.</p>	<p>LTIP awards will be awarded in the financial year ending 30 June 2015 based on an equal weighting of EPS and TSR performance.</p> <p>EPS performance is measured by compound cumulative growth over the performance period.</p> <p>TSR outperformance is measured on a multiplicative basis relative to a revenue-weighted index based on the FTSE ASX Construction and FTSE ASX Support Services indices. If TSR outperformance is used in future award cycles, the revenue weightings will be fixed based on the Group's approximate revenue mix in the year prior to grant.</p> <p>The Committee retains discretion to supplement EPS and TSR with additional performance measures to ensure that the awards are always linked to sustained business performance. No measure will carry a weighting of less than 25%.</p> <p>Actual performance measures and weightings will be disclosed in the annual report immediately following the granting of an award.</p>

The Committee is satisfied that this remuneration policy is in the best interests of shareholders. The Committee retains discretion to make non-material changes to the policy without reverting to shareholders.

Payments from outstanding awards

The Company will honour any commitment entered into, and executive directors will be eligible to receive payment from any award made, prior to the approval and introduction of this remuneration policy, which is expected to be after the annual general meeting on 13 November 2014.

Directors' remuneration report

continued

Notes to the policy table

'Malus'

Previous deferred annual bonus awards include the 'malus' provision described in the table above, whereas deferred annual bonus and LTIP awards granted from 2014 onwards will be subject to revised 'malus' provisions. These will allow the Committee to determine, in its absolute discretion, that (i) an unvested LTIP award (or part of an award) may not vest or that the level of vesting is reduced and/or (ii) the number of deferred shares (allocated in part satisfaction of the annual bonus) is reduced (including to nil) in certain circumstances. Examples of such circumstances include, but are not limited to:

- A material mis-statement of the Group's financial statements;
- A material error in determining the level of satisfaction of a performance condition or target;
- A participant deliberately misleading the Company, the market and/or shareholders in relation to the financial performance of the Group; and
- A participant's employment being terminated in circumstances of gross misconduct and/or circumstances justifying summary dismissal.

The Committee has the right to apply the 'malus' provision to an individual or on a collective basis.

Executive director shareholding guidelines

The Committee encourages executive directors to accumulate a shareholding in the Company of at least two years' base salary over a period of up to five years. Executive directors are encouraged to retain any shares allocated to them as part of the annual bonus arrangements and 50% of the shares allocated to them upon the vesting of LTIP awards (net of tax) until they reach this level of shareholding.

Selection of performance measures and approach to setting targets

The measures used for the annual bonus are determined annually to reflect KPIs which are considered important and relevant to the Group. The Committee believes that using a number of measures provides a balanced incentive. The measures themselves are aligned to, and are designed to support the delivery of, the Group's strategy.

In relation to the LTIP awards, the Committee believes that the combination of EPS and TSR clearly aligns performance to shareholders' interests and the Group's long-term strategy. EPS is a key measure of long-term underlying performance of the Group. TSR is intended to measure management's contribution to the creation of value for shareholders. A revenue-weighted index based on the FTSE ASX Construction and FTSE ASX Support Services indices reflects the Group's mix of business. In future years, the Committee may decide to select other performance measures.

Targets for the annual bonus and the LTIP awards are reviewed before the awards are made, based on a number of internal and external reference points. The Committee intends that targets will be stretching but achievable and will align management's interests with those of shareholders.

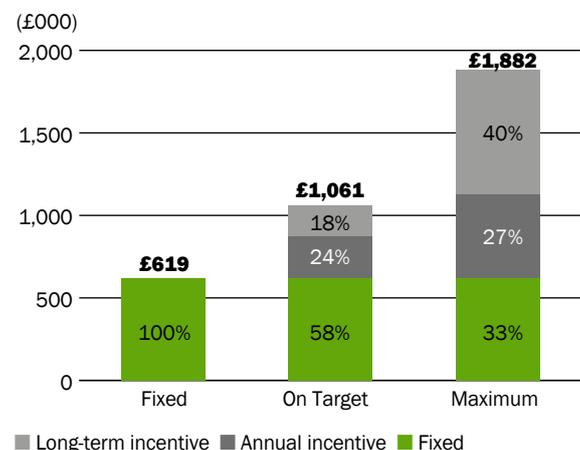
Differences from remuneration policy for other employees

Kier's approach to setting annual remuneration is broadly consistent across the Group. Consideration is given to the experience, performance and responsibilities of individuals as well as publicly available external benchmarking data, to the extent considered necessary or appropriate. Certain grades of senior employees are eligible to participate in an annual bonus scheme with similar performance measures to those used for the executive directors. Maximum opportunities and specific performance measures vary by seniority, with business-specific measures applied where appropriate. Senior managers (currently, approximately 200 individuals) are also eligible to participate in the LTIP. The performance measures for each LTIP award cycle are typically the same for all participants (although the rules of the LTIP permit the Committee to grant LTIP awards using different performance measures). Award sizes vary according to seniority and responsibility.

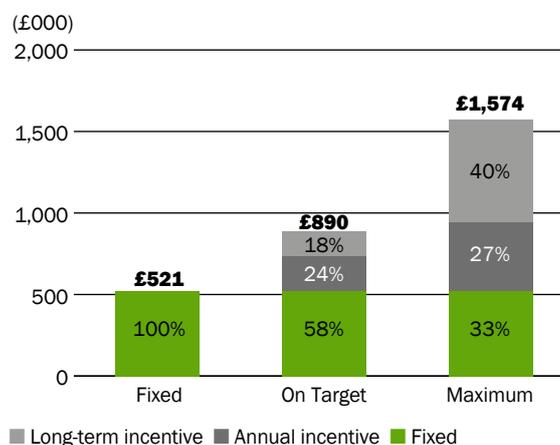
Illustration of application of remuneration policy

The charts below set out the minimum (i.e. 'fixed') remuneration receivable by each executive director as at the date of this report, as well as the potential remuneration for 'on-target' and 'maximum' performance, as a result of the application of the remuneration policy set out above in the year ending 30 June 2015.

Haydn Mursell



Steve Bowcott



'Fixed' remuneration comprises base salary, pension and benefits. The 'on-target' remuneration stated assumes an annual bonus payment of 50% of the maximum opportunity and a 'threshold' LTIP vesting (25% of the maximum opportunity). The 'maximum' remuneration stated assumes maximum performance is achieved and therefore awards under the annual bonus and the LTIP pay out or vest at their normal maximum level of 100% and 150% of salary, respectively. No share price appreciation is assumed for LTIP awards. Performance measures for the annual bonus and the LTIP awards relate to one financial year and three financial years, respectively.

Approach to remuneration on recruitment

External appointment

When recruiting a new executive director from outside the Group, the Committee may make use of all the existing components of remuneration. In addition, the Committee may consider it appropriate to grant an award under an alternative scheme or arrangement in order to facilitate recruitment of an individual, subject to the policy set out below:

Component	Approach
Base salary	The base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and the appointee's current base salary. Where a new appointee has an initial base salary set below the market median, any subsequent adjustment will be managed by the Committee, using (where appropriate) phased increases and subject to the individual's development in the role.
Benefits	New appointees will be eligible to receive benefits in line with the remuneration policy, which may also include (but are not limited to) any necessary expenses relating to expatriation or relocation on recruitment.
SAYE Scheme	New appointees will be eligible to participate on the same terms as all other employees.
AESOP	New appointees will be eligible to participate on the same terms as all other employees.
Pension	New appointees will receive pension contributions of up to 20% of pensionable salary into a defined contribution pension arrangement or an equivalent taxable cash supplement or a combination of both.
Annual bonus	The annual bonus structure described in the remuneration policy will apply to new appointees (including the maximum opportunity), pro rated in the year of joining to reflect the proportion of that year employed. One-third of any bonus earned will be deferred into shares.
LTIP	New appointees may be granted awards under LTIP of up to 200% of salary, as contemplated by the remuneration policy.
'Buy-out' awards	The Committee may consider it appropriate to grant a 'buy-out' award (with respect to either a bonus or a share-based incentive scheme) under an alternative scheme or arrangement in order to facilitate the recruitment of an individual. When doing so, the Committee may, to the extent required, exercise the discretion available under Listing Rule 9.4.2. Any such 'buy-out' award would have a fair value of no higher than that of the award forfeited. In granting any such award, the Committee will consider relevant factors, including any performance conditions attached to the forfeited awards, the likelihood of those conditions being met and the proportion of the vesting period remaining. When considering any performance conditions, the Committee will, where appropriate, take into account those used in the Company's own incentive arrangements. Where appropriate, the Committee will also consider whether it is necessary to introduce further retention measures for an individual – for example, extended deferral periods.

In determining an appropriate remuneration package, the Committee will take into consideration all relevant factors to ensure that the arrangements are in the best interests of the Company's shareholders.

Directors' remuneration report

continued

The remuneration of the new finance director, Beverley Dew, will be within the terms of the policy on external recruitment and disclosed in next year's annual report on remuneration.

Internal promotion

When recruiting a new executive director through internal promotion, the Committee will set remuneration in a manner consistent with the policy for external appointments set out above (other than with respect to 'buy-out' awards). Where an individual has contractual commitments made prior to their promotion to executive director level, the Company will continue to honour these commitments. The remuneration of individuals below the Board is typically not greater than for executive directors.

Service contracts

A summary of the key elements of the executive directors' service agreements (insofar as they relate to remuneration) is as follows:

Term of contract	Summary of provisions
Notice period	12 months' notice (both to and from the executive director).
Payment in lieu of notice (PILON)	<p>Employment can be terminated with immediate effect by undertaking to make a payment in lieu of notice (PILON) comprising base salary, accrued (but untaken) holiday pay, pension contributions or allowance, car allowance and private medical insurance.</p> <p>The Company is entitled to make the PILON on a phased basis, so that any outstanding payment(s) would be reduced or stopped if alternative employment is obtained.</p>
Change of control	There are no payments due upon a change of control, although deferred bonus will be released.
Entitlements on termination	<p>There is no contractual entitlement to notice or any other payments in respect of the period after cessation of employment in circumstances in which the individual is summarily dismissed. In such circumstances, deferred bonus shares will be forfeited and LTIP awards will lapse.</p> <p>If the individual is not a 'bad leaver' (and any 'malus' provision is not applied), deferred bonus shares will be released upon cessation of employment and the position with respect to LTIP awards is as set out under 'Payments for loss of office' below.</p> <p>If not required to take any remaining holiday entitlement during his notice period, the executive director will receive a payment for any accrued (but untaken) holiday entitlement.</p>

It is expected that these terms will apply to any service agreements entered into with executive directors during the period in which this remuneration policy will apply.

Payments for loss of office

The Company's policy on payments for loss of office is as follows:

Component	Approach
Annual bonus	Individuals who are considered to be 'good leavers' may be considered for a bonus in relation to the year in which their active employment ceases. Any payment will normally be pro rated for length of service and performance during the year. However, the Committee retains the discretion to review the performance of the individual and the Group in general and, having done so, determine that a different level of bonus payment would be appropriate. Deferred bonus shares will, typically, be released to the individual upon cessation of office, unless the 'malus' provision applies.
LTIP	<p>If an executive director's employment ceases for reasons of death, ill-health, injury, disability, retirement with the agreement of the Company or his employing company ceasing to be a member of the Group or such other circumstances approved by the Committee, outstanding awards are retained. The Committee may also (at its discretion) permit unvested LTIP awards to vest on an accelerated basis or alternatively be retained until the vesting date. Unvested LTIP awards will, subject to Committee discretion, normally be pro rated for length of service during the performance period and will, subject to performance, normally vest at the same time as all other awards in the LTIP award cycle. A 'malus' provision also applies to all LTIP awards granted from 2014.</p> <p>For all other leavers, outstanding LTIP awards automatically lapse, unless the Committee exercises its discretion otherwise (taking into account the factors detailed immediately following this table).</p>
AESOP and SAYE Scheme	The executive directors are subject to the same 'leaver' provisions as all other participants, as prescribed by the rules of the relevant scheme or plan.
Other	<p>If the Company terminates an executive director's employment by reason of redundancy, the Company will make a redundancy payment to the executive director in line with his service agreement, any applicable collective bargaining agreement and applicable law and regulation.</p> <p>The Company may make a contribution towards an executive director's legal fees for advice relating to a compromise or settlement agreement and may also make other payments connected to the departure – for example, for outplacement services. With respect to any such payments, the Committee will authorise what it considers to be reasonable in the circumstances.</p>
Change of control	Deferred bonus shares will be released, any outstanding LTIP awards may vest early (subject to the Committee's discretion, having taken into account current and forecast progress against the performance condition(s), the proportion of the vesting period which has elapsed and any other factors considered by the Committee to be relevant) and the rules of the AESOP and the SAYE Scheme will apply. No payments are due under the executive directors' service agreements upon a change of control.

Where appropriate, the Committee will oblige the individual to mitigate his/her losses and either offset any alternative remuneration received by the individual against any payments made by the Company for loss of office or reduce any payments to be made by the Company for loss of office to take account of any failure to mitigate when, in the reasonable opinion of the Committee, the individual has failed actively to do so.

In exercising discretion in respect of any of the elements referred to above, the Committee will take into account all factors which it considers to be appropriate at the relevant time. These include, but are not limited to: the duration of the executive director's service; the Committee's assessment of the executive director's contribution to the success of the Group; whether the executive director has worked any notice period or whether a payment in lieu of notice is being made; the need to ensure an orderly handover of duties; and the need to compromise any claims which the executive director may have. Any use of Committee discretion will be disclosed in the relevant annual report on remuneration.

Consideration of employment conditions elsewhere in the Group

Employees are not formally consulted on the executive directors' remuneration and were not consulted during the preparation of the remuneration policy set out above. However, the Group's employee engagement survey provides an opportunity for employees to provide their opinion on their own remuneration arrangements (and also on other matters across the Group).

The Committee takes into account the overall pay and employment conditions of employees within the Group when making decisions on the executive directors' remuneration. Accordingly, the Committee (i) is provided with information about the proposed annual Group-wide pay review when setting the executive directors' salaries, (ii) is made aware of the approximate outcomes of annual bonuses and (iii) sets the LTIP performance targets which typically apply to all participants in the annual LTIP award cycle.

Directors' remuneration report continued

Consideration of shareholder views

The views of shareholders, and guidance from shareholder representative bodies, are important to the Committee and provide the context for setting the remuneration of the executive directors. The chair of the Committee and the chairman of the Company have met with a number of the significant shareholders during the year and their views have been taken into account when preparing the remuneration policy.

The Committee will keep the remuneration policy under regular review so as to ensure that it continues to relate to the Company's long-term strategy and aligns the interests of the executive directors with those of shareholders. In addition, the Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

Non-executive director remuneration policy

General

The non-executive directors' remuneration (including that of the chairman) reflects the anticipated time commitment to fulfil their duties. Non-executive directors do not receive bonuses, long-term incentive awards, a pension or compensation on termination of their appointments. The policy on non-executive directors' fees is as follows:

Element and link to strategy	Operation	Opportunity	Performance measures
Fees To attract and retain non-executive directors of the calibre required and with appropriate skills and experience.	Fee levels are reviewed annually with reference to individual experience, the external market and the expected time commitment required of the director. Additional fees are payable to committee chairs and to the senior independent director.	Fees may be increased in line with the outcome of the annual review and will not normally exceed the increase awarded to the wider employee population. Higher increases may be awarded should there be a material change to the requirements of the role, such as additional time commitment. Any changes to fees will be disclosed in the annual report on remuneration for the relevant year.	Continued strong performance.

Recruiting non-executive directors

When recruiting a new non-executive director, the Committee will follow the policy set out in the table above.

Non-executive director letters of appointment

The non-executive directors do not have service contracts but have entered into letters of appointment with the Company. The letters of appointment do not include any provisions for the payment of pre-determined compensation upon termination of appointment.

The effective dates of the letters of appointment of the non-executive directors at 30 June 2014 and the applicable notice periods are as follows:

Director	Effective date	Notice period
Richard Bailey	1 October 2010	1 month
Amanda Mellor	1 December 2011	1 month
Phil White ¹	1 July 2006	1 month
Nick Winsor	1 March 2009	1 month

¹ Phil White assumed the role of chairman with effect from 2 January 2008.

Kirsty Bashforth became a director with effect from 1 September 2014. Her letter of appointment contains a one month notice period.

No term is included in the non-executive directors' letters of appointment. Notice may be served by either party to the letter of appointment.

The annual report on remuneration

This section of the report sets out the annual report on remuneration for the year ended 30 June 2014.

Directors' remuneration for the year ended 30 June 2014

The following table provides details of the directors' remuneration for the year ended 30 June 2014, together with their remuneration for the year ended 30 June 2013:

	Salary/fees (£000)		Bonus (£000)		Taxable benefits ¹ (£000)		LTIP vesting in year (£000)		All-employee schemes (£000)		Pension ⁵ (£000)		Total (£000)	
	13/14	12/13	13/14	12/13	13/14	12/13	13/14 ²	12/13 ³	13/14 ⁴	12/13	13/14	12/13	13/14	12/13
Executive directors														
Steve Bowcott	378	343	257	167	16	16	129	130	1	-	76	69	857	725
Haydn Mursell	378	343	257	167	13	13	129	130	1	-	76	69	854	722
Paul Sheffield	481	469	327	229	15	15	180	180	-	-	96	94	1,099	987
Non-executive directors														
Richard Bailey	54	53	-	-	-	-	-	-	-	-	-	-	54	53
Chris Geoghegan ⁶	37	55	-	-	-	-	-	-	-	-	-	-	37	55
Amanda Mellor	54	47	-	-	-	-	-	-	-	-	-	-	54	47
Phil White	165	162	-	-	-	-	-	-	-	-	-	-	165	162
Nick Winser	54	47	-	-	-	-	-	-	-	-	-	-	54	47
Total	1,601	1,519	841	563	44	44	438	440	2	-	248	232	3,174	2,798

¹ Comprise private health insurance and a company car or a car allowance.

² The award granted on 17 November 2011 will vest as to 32.7% on 17 November 2014. Calculated by multiplying the number of shares receivable by the relevant director (before deduction for income tax and national insurance contributions) by the average middle market quotation of a share in the capital of the Company for the three months ended 30 June 2014 of £17.00.

³ The award granted in November 2010 vested as to 31.2% on 14 November 2013, as detailed on page 61 of last year's annual report. Calculated by multiplying the number of shares receivable by the relevant director (before deduction for income tax and national insurance contributions) by the middle market quotation of a share in the capital of the Company on 14 November 2013 of £17.19. The value of these awards referred to in last year's annual report was based on the three-month average share price for the period ended 30 June 2013.

⁴ The value of the 44 matching shares purchased for the individual during the year under the AESOP, using an average share price of £17.13.

⁵ Comprises the payment of employer pension contributions and/or a cash allowance.

⁶ Chris Geoghegan retired from the Board with effect from 21 February 2014.

Annual bonus

During the year ended 30 June 2014, the executive directors were eligible to receive a bonus of up to 100% of base salary. Of this, a maximum of 55% was payable if the Group achieved certain profit performance targets and a maximum of 25% was payable if the Group also achieved certain cash performance targets. Of the remaining 20%, 10% was payable if health and safety performance targets (divided as to 50% for Kier performance and 50% for May Gurney performance), which are considered to be key non-financial performance measures for the Group, were achieved. The remaining 10% was payable at the discretion of the Committee (subject to an assessment of the executive director's performance).

One-third of any annual bonus awarded to the executive directors was satisfied in Kier Group plc shares and is subject to forfeiture in the circumstances set out in the policy table. A similar approach is applied to the annual bonus arrangements for certain members of the senior management team. The Committee believes that part satisfaction of the annual bonus in shares strengthens the alignment of the interests of the executive directors, and members of senior management, with those of shareholders.

Directors' remuneration report continued

The bonuses awarded in respect of the year ended 30 June 2014 represented 67.9% of the base salaries of the executive directors. Further details are provided in the following table:

	Weighting	Measure/ weighting		Performance level				Performance achieved (% age of base salary)		
				'Threshold'	'On target'	'Stretch'	Actual	Steve Bowcott	Haydn Mursell	Paul Sheffield
Financial	80%	Profit before tax (55%)	Target	<£70m	£70m	£77m	£73.1m	46.6%	46.6%	46.6%
			Payout ¹	0%	40%	55%	46.6%			
		Average month-end cash (25%)	Target	£(165)m	£(150)m	£(135)m	£(140.5)m	21.3%	21.3%	21.3%
			Payout ¹	0%	15%	25%	21.3%			
Non-financial	20%	Health & safety – Kier (5%) ²				See note 2	-	-	-	
		Health & safety – May Gurney (5%) ²					-	-	-	
		Discretionary element (10%) ³				See note 3	-	-	-	
Total							67.9%	67.9%	67.9%	

¹ As a percentage of maximum opportunity.

² The health and safety performance targets related to a reduction in Kier's and May Gurney's AIR from April to June 2014, as compared to the equivalent period in 2013. Although both Kier's and May Gurney's AIR decreased significantly during the year, the Committee decided that, as a result of the fatalities which occurred during the course of the year, there would be no payout with respect to the safety element of the bonus.

³ The Committee also decided that, in light of these fatalities, none of the discretionary element of the bonus would be payable.

LTIP awards

The three-year performance period of the LTIP awards granted on 17 November 2011 ended on 30 June 2014. Further details relating to these awards are set out below.

Performance against the performance conditions of these awards was as follows:

Performance condition	Weighting	Targets	Actual performance	Level of vesting
Cumulative EPS growth	1/3	0% vesting for below 5% p.a.	Below threshold	0%
		25% vesting for 5% p.a.		
		100% vesting for 15% p.a.		
		Straight-line vesting between these points		
TSR outperformance ¹	2/3	0% vesting for below index	Index +3.84% p.a.	49.0%
		25% vesting for performance in line with index		
		100% vesting for performance in line with index + 12% p.a.		
		Straight-line vesting between these points		
Total				32.7%

¹ Against a revenue-weighted index based 75% on the FTSE ASX Construction Index and 25% on the FTSE ASX Support Services Index (representing the Group's approximate prior year revenue mix at the date of grant).

The vesting of these awards on the third anniversary of the date of grant (i.e. 17 November 2014) will result in the allocation of the following numbers of shares to the following individuals:

Director	Maximum number of shares	Number of shares vesting	Value ¹
Steve Bowcott	23,239	7,599	£129,183
Ian Lawson ²	18,075	5,910	£100,470
Haydn Mursell	23,239	7,599	£129,183
Paul Sheffield	32,394	10,592	£180,064

¹ The value of an award is calculated by multiplying the number of vested shares by the average middle market quotation of a share in the capital of the Company for the three months ended 30 June 2014 of £17.00.

² Ian Lawson retired from the Board with effect from 21 June 2013. The maximum number of shares receivable under his award was reduced from 27,113 to 18,075 to reflect his active service with the Group during the performance period.

'Maximum number of shares', 'number of shares vesting' and 'value' are shown prior to deductions for income tax and national insurance contributions.

Pension entitlements

Haydn Mursell and Steve Bowcott participate in the defined contribution section of the Kier Group Pension Scheme. Both receive a pension contribution of 20% of base salary, subject to the annual allowance (which reduced from £50,000 to £40,000 from 6 April 2014). The balance is paid as a cash allowance.

Paul Sheffield participated in the defined benefit section of the Kier Group Pension Scheme, although opted out of the scheme with effect from 30 June 2010 and became entitled to a deferred pension from that date. During the year, Paul Sheffield received a cash allowance of 20% of base salary in lieu of continued pension accrual. The value of his accrued deferred pension since opting out, including revaluation at 30 June 2014, was £153,000 per annum and is payable from age 62 (the normal retirement age under the scheme).

Cash allowances are subject to the usual tax and national insurance deductions which are payable by the executive director and excluded when determining annual bonus and long-term incentives.

Payments to the executive directors with respect to the Kier Group Pension Scheme during the year ended 30 June 2014 were:

Director	Pension contribution	Cash allowance	Total
Haydn Mursell	£47,500	£28,016	£75,516
Steve Bowcott	£47,500	£28,016	£75,516
Paul Sheffield	-	£96,186	£96,186

Incentive awards made during the year

The following incentive awards were made to each of the executive directors during the year ended 30 June 2014:

Award	Basis of award	Director	Face value ¹	Potential award for threshold performance	End of performance period	Vesting date	Difference between exercise price and face value	Performance measures
LTIP	150% of base salary for the year ended 30 June 2014	Steve Bowcott	£566,269					Awards are based 1/3 on three-year cumulative EPS, 1/3 on relative TSR performance and 1/3 on May Gurney ROCE. See below for details of targets
		Haydn Mursell	£566,269	25% of face value	30 June 2016	21 October 2016	n/a	
		Paul Sheffield ²	£721,394					
Deferred shares	1/3 of the net bonus for the year ended 30 June 2013	Steve Bowcott	£29,595					Continued service condition (subject to the 'malus' provision – please see the future policy table)
		Haydn Mursell	£29,595	n/a	n/a	28 October 2016	n/a	
		Paul Sheffield	£40,466					
AESOP	Matching shares purchased in accordance with the AESOP rules ³	Steve Bowcott	£754					Continued service condition
		Haydn Mursell	£754	n/a	n/a	n/a	n/a	
		Paul Sheffield	-					

¹ For the LTIP awards, 'face value' is calculated using the middle market quotation of a share in the capital of the Company on 18 October 2013 of £17.81. The LTIP awards were granted on 21 October 2013, using the share price from the business day immediately prior to the date of grant. For the deferred share awards, 'face value' is calculated using the middle market quotation of a share in the capital of the Company on 25 October 2013 of £17.85. The deferred shares were allocated on 28 October 2013, using the share price from the business day immediately prior to the date of allocation.

² The LTIP award granted to Paul Sheffield was reduced from 40,505 shares to 13,501 shares in accordance with the terms of his departure from office. The face value referred to is calculated using 40,505 shares. The face value of the reduced award is £240,453.

³ During the year, 44 matching shares were purchased for Steve Bowcott and Haydn Mursell under the AESOP. The face value of these shares is calculated using the average middle market quotation of a share in the capital of the Company at the dates of the purchases of £17.13.

Directors' remuneration report continued

Performance conditions (and respective weightings) and targets for the LTIP awards which were granted during the year ended 30 June 2014 are set out in the table below. The awards vest on the third anniversary of the grant date (i.e. 21 October 2016).

Performance condition	Weighting	Targets
Cumulative EPS growth	1/3	0% vesting for below 5% p.a. 25% vesting for 5% p.a. 100% vesting for 15% p.a. Straight-line vesting between these points
TSR outperformance ¹	1/3	0% vesting for below index 25% vesting for performance in line with index 100% vesting for performance in line with index + 12% p.a. Straight-line vesting between these points
May Gurney ROCE	1/3	0% vesting below 15% 25% vesting for 15% 100% vesting for 16% Straight-line vesting between these points

¹ Against a revenue-weighted index based 50% on the FTSE ASX Construction Index and 50% on the FTSE ASX Support Services Index (representing the Group's approximate prior year revenue mix at the date of grant).

Payments to past directors

There were no payments made for the year ended 30 June 2014 to any person who was not a director of the Company at the time the payment was made but who had been a director before that time, other than the LTIP award granted to Ian Lawson which will vest on 17 November 2014, as described on page 78.

The values of the LTIP awards granted to Ian Lawson (who ceased to be a director on 21 June 2013) and Richard Simkin (who ceased to be a director on 30 June 2011) which vested on 14 November 2013, as disclosed in last year's annual report, were based on a three-month average middle market quotation of a share in the capital of the Company for the period ended 30 June 2013. Using the share price from 14 November 2013 of £17.19, Ian Lawson's award which vested in November 2013 is valued at £156,859 and Richard Simkin's award is valued at £45,949.

Payments for loss of office

As reported in last year's report and accounts, Ian Lawson resigned from the Board on 21 June 2013, although he was employed by the Group until 21 September 2013 to assist with the integration of May Gurney. Ian was entitled to £510,510 by way of a payment in lieu of his 12-month notice (which began on 21 September 2013), payable in six monthly instalments until March 2014 and the balance in a lump sum in April 2014. The payment comprised salary, pension contributions and pay in relation to accrued but untaken holiday. It was agreed that all amounts payable would be reduced to the extent that, during the notice period, remuneration was obtained from alternative employment. Ian obtained alternative employment with Severfield plc and, as a result, the total amount payable by Kier to Ian with respect to his notice period was significantly reduced to £136,010. A statutory redundancy payment of £8,100 was paid to Ian, who also received a taxable benefit of £13,911 as a result of buying his car from the Company at written down book value.

The Committee decided that, in light of Ian's long service with the Group (in total, approximately 20 years), it would be appropriate for Ian to be paid his bonus for the year ended 30 June 2013 and to allow his LTIP award granted in 2010 to vest in November 2013 (with his LTIP awards granted in November 2011 and September 2012 being pro rated for active service during the respective performance periods).

On 18 February 2014, it was announced that Paul Sheffield would stand down as chief executive with effect from 30 June 2014. Under his service agreement, Paul was entitled to 12 months' notice and it was therefore agreed that Paul's employment would terminate on the later of 30 June 2015 and the date, if any, on which he submitted a notice of resignation. Pending such termination, Paul would remain on garden leave. The Committee agreed that, up to (and including) 30 June 2015, Paul would be entitled to his salary (and cash pension supplement), payable in monthly instalments, but that he would take all reasonable steps to obtain work outside the Group, so as to reduce the amounts payable by the Company during his notice period. In July 2014, it was announced that Paul had obtained alternative employment with Laing O'Rourke, with effect from October 2014. As a result, the monthly payments from Kier will cease in October 2014. All payments made to Paul with respect to the year ending 30 June 2015 will be disclosed in next year's annual report on remuneration.

In light of his long service with the Group, it was agreed that Paul would receive his bonus for the year ended 30 June 2014 and that his 2011 LTIP award granted would be permitted to vest. However, no bonus will be payable to Paul in relation to the financial year ending 30 June 2015 and, although his LTIP awards granted in 2012 and 2013 will remain in place, they are subject to pro rating for active service during the performance periods.

Directors' shareholdings and share interests

The Committee encourages executive directors to build up a shareholding in the Company. With effect from 1 July 2013, the Committee increased the recommended level of shareholding from at least one year's salary to at least two years' salary, to be accumulated over a period of up to five years. Executive directors are therefore encouraged to retain any shares allocated to them as part of the annual bonus arrangements and 50% of the shares allocated to them upon the vesting of LTIP awards (net of tax) until this shareholding has been reached.

The following table sets out details, as at 30 June 2014, of the shareholding and share interests of those persons who, during the year ended 30 June 2014, served as a director of the Company:

Director	Shares held				Options held		Shareholding guideline (% of salary)	Current shareholding (of salary) ⁶	Guideline met?
	Owning outright ¹ or vested	Vested but subject to a holding period ²	Unvested and subject to performance conditions ³	Unvested and subject to continued employment ⁴	Vested but not exercised	Unvested and subject to continued employment ⁵			
Steve Bowcott	12,112	6,330	79,530	162	-	857	200	86.6%	No
Haydn Mursell	10,904	6,035	104,027	163	-	-	200	79.5%	No
Paul Sheffield	62,846	8,767	68,221	-	-	857	200	264.3%	Yes
Richard Bailey	-	-	-	-	-	-	n/a	n/a	n/a
Amanda Mellor	-	-	-	-	-	-	n/a	n/a	n/a
Phil White	2,540	-	-	-	-	-	n/a	n/a	n/a
Nick Winser	3,500	-	-	-	-	-	n/a	n/a	n/a

¹ Comprising legally or beneficially held shares by the relevant director or their connected person (including partnership shares, dividend shares and matching shares purchased before 30 June 2011 under the AESOP – see 'AESOP' below). Does not include shares allocated in respect of the LTIP award vesting on 17 November 2014.

² Comprising deferred shares allocated to the relevant director in connection with annual bonuses. See 'Deferred shares' below.

³ Comprising unvested LTIP awards. With respect to Paul Sheffield, calculated using the pro rated 2013 and 2014 awards referred to in note 1 under 'LTIP awards' below.

⁴ Comprising matching shares purchased under the AESOP within the three-year period ended 30 June 2014. See 'AESOP' below.

⁵ Comprising options under the SAYE Scheme. See 'SAYE Scheme' below.

⁶ Calculated based on (i) shares owned outright by the director or his connected persons and (ii) deferred shares allocated to the relevant director in connection with annual bonuses, using the middle market quotation of a share in the capital of the Company on 30 June 2014 of £17.75 and base salaries applicable to the year ended 30 June 2014.

Deferred shares

Those persons who, during the year ended 30 June 2014, served as a director of the Company beneficially owned, at 30 June 2014, the following numbers of shares in the capital of the Company as a result of awards of shares representing one-third of the relevant director's net bonus in each of the years indicated:

Director	2012 award	2013 award	2014 award	Cumulative total
Steve Bowcott	1,860	2,812	1,658	6,330
Haydn Mursell	1,620	2,757	1,658	6,035
Paul Sheffield	2,580	3,920	2,267	8,767
Date of award	17 October 2011	14 September 2012	28 October 2013	-
Share price used for award ¹	1,376p	1,401p	1,785p	-
End of holding period	17 October 2014	14 September 2015	28 October 2016	-

¹ The middle market quotation of a share from the business day immediately prior to the date of the award, being 14 October 2011, 13 September 2012 and 25 October 2013, respectively.

Directors' remuneration report

continued

LTIP awards

Those persons who, during the year ended 30 June 2014, served as a director of the Company hold the LTIP awards over the following maximum numbers of shares in the capital of the Company:

Director	2012 award	2013 award	2014 award	Cumulative total 30 June 2014	Cumulative total 30 June 2013
Steve Bowcott	23,239	24,496	31,795	79,530	71,953
Haydn Mursell	23,239	48,993	31,795	104,027	96,450
Paul Sheffield ¹	32,394	33,490	40,505	106,389	99,477
Date of award	17 November 2011	14 September 2012	21 October 2013	-	-
Share price used for award ²	1,420p	1,401p	1,781p	-	-
End of performance period	30 June 2014	30 June 2015	30 June 2016	-	-

¹ The 2013 and 2014 awards granted to Paul Sheffield were reduced to, respectively, 22,326 and 13,501 shares in accordance with the terms of his departure.

² The middle market quotation of a share from the business day immediately prior to the date of the award, being 14 November 2011, 13 September 2012 and 18 October 2013, respectively.

The performance conditions for the 2012 and 2013 awards are set out in the annual reports in respect of the year in which the awards were made. The performance conditions for the 2014 awards are disclosed on page 80.

AESOP

Those persons who, during the year ended 30 June 2014, served as a director of the Company beneficially own the following numbers of shares as a result of purchases under the AESOP at 30 June 2014:

Director	Partnership shares	Dividend shares	Matching shares (<3 years)	Matching shares (>3 years)	Total number of shares
Steve Bowcott	881	256	162	262	1,561
Haydn Mursell	372	45	163	23	603

Under the AESOP, any amount saved by the executive directors will be applied by the trustee of the AESOP to make monthly purchases of shares on their behalf. The Company matches purchases through the AESOP (currently at the rate of one free share for every two shares purchased) and the trustee reinvests cash dividends to acquire further shares on behalf of the participants.

Matching shares which have been purchased within three years of the termination of an individual's employment may, depending on the circumstances of such termination, be forfeited.

Details of the number of matching shares purchased during the year are set out in the table in the paragraph headed 'Incentive awards made during the year' on page 79. At 17 September 2014, the Company had been notified that the following current directors had acquired beneficial interests in further ordinary shares in the capital of the Company under the AESOP since 30 June 2014: Steve Bowcott, 33 shares; and Haydn Mursell, 33 shares. There have been no other changes in the interests of the directors (or their connected persons) in the ordinary shares in the capital of the Company since 30 June 2014.

SAYE Scheme

Those persons who, during the year ended 30 June 2014, served as a director of the Company had the following options under the SAYE Scheme at 30 June 2014:

Director	Date granted	Maximum number of shares receivable at 1 July 2013	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum number of shares receivable at 30 June 2014 ¹	Exercise price	Exercise period
Steve Bowcott	27 April 2012	857 ¹	-	-	-	857	1,050p	1 July 2015 – 1 January 2016
Paul Sheffield	27 April 2012	857 ²	-	-	-	857	1,050p	1 July 2015 – 1 January 2016

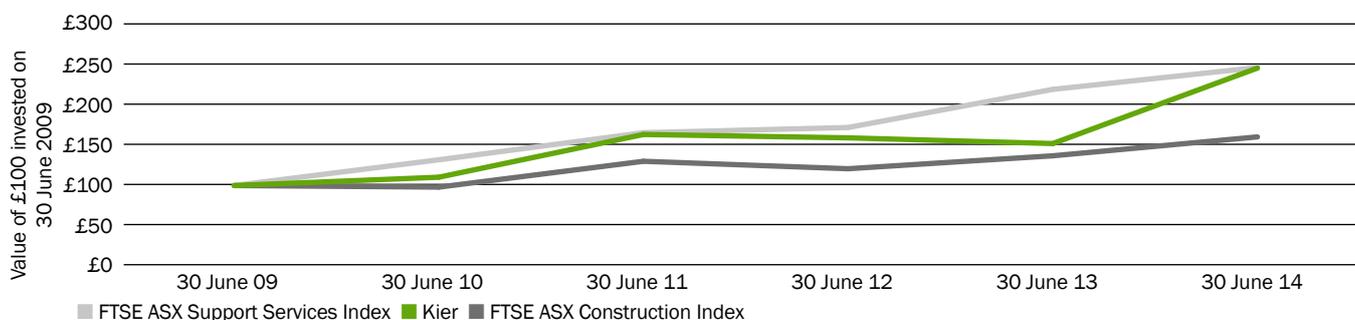
¹ Assumes that Steve Bowcott saves the maximum permitted amount until the commencement of the exercise period.

² The maximum number of shares to which Paul Sheffield would have been entitled had he remained employed until the commencement of the option exercise period and saved the maximum permitted amount. The SAYE Scheme rules relating to 'leavers' will apply to the contribution saved by Paul Sheffield.

Total shareholder return and chief executive's remuneration

Total shareholder return

The TSR graph below shows the value, at 30 June 2014, of £100 invested in shares in the capital of the Company on 30 June 2009, compared with the value of £100 invested in the FTSE ASX Construction Index and the FTSE ASX Support Services Index. These benchmarks were chosen because they are considered to be the most appropriate against which the TSR of Kier should be measured and represents companies with which Kier competes. They also reflect trends within the UK construction and support services industries generally. The other points plotted are the values at 30 June during the five-year period.



Chief executive's remuneration

The table below sets out the total remuneration of the Group's chief executive paid with respect to each financial year indicated:

Chief executive	30 June 2010		30 June 2011	30 June 2012	30 June 2013	30 June 2014
	John Dodds	Paul Sheffield ¹	Paul Sheffield	Paul Sheffield	Paul Sheffield	Paul Sheffield
Total single figure	£1,427,000	£238,000	£753,000	£1,273,000	£987,000	£1,099,000
Annual bonus ²		51%	69%	75%	48.8%	67.9%
Long-term incentive ²		0%	0%	100%	31.2%	32.7%

¹ Paul Sheffield became chief executive with effect from 1 April 2010. The figure quoted relates to remuneration received as chief executive during the year.

² As a percentage of maximum opportunity.

All total single figures in the above table are rounded to the nearest £1,000.

Directors' remuneration report

continued

Percentage change in the chief executive's remuneration

The table below shows the percentage change in the chief executive's base salary, taxable benefits and annual bonus for the year ended 30 June 2014, as compared with the year ended 30 June 2013, together with the approximate comparative figures for those employees within the Group who were also eligible for salary reviews on 1 July of each year and who were not subject to collective agreements. This section of the employee population (comprising approximately 3,000 individuals across all levels within the Group) is considered to be the most appropriate group for the purposes of a comparison, as decisions with respect to these employees are within the control of the Group and are affected by similar external market forces as those which relate to the chief executive's remuneration.

May Gurney was acquired on 8 July 2013 and, as a result, the figures below do not include members of staff who transferred with May Gurney.

	Chief executive change	All other employees change
Base salary	2.6%	5.5%
Taxable benefits	-	7.0%
Annual bonus	43.0%	5.5%

Distribution statement

The graph below shows the percentage changes in the total employee expenditure and dividend paid between the years ended 30 June 2013 and 30 June 2014.

Employee expenditure £m

2013	404.9 ¹
2014	+50.8% 610.5

Dividend £m

2013	33.5
2014	+17.6% 39.4

¹ Restated figure, on the adoption of the amendment to IAS 19.

Total employee expenditure for the years ended 30 June 2013 and 2014 is explained in note 6 to the consolidated financial statements.

The interim and final dividends for the year ended 30 June 2013 were 21.5p and 46.5p per share, respectively. The interim and final (proposed) dividends for the year ended 30 June 2014 are 22.5p and 49.5p per share, respectively.

Implementation of policy for the year ending 30 June 2015

Executive directors' base salary

The base salaries of the executive directors increased with effect from 1 July 2014 as follows:

Director	From 1 July 2014 (£000)	From 1 July 2013 (£000)	Increase
Steve Bowcott	421	378	11.5%
Haydn Mursell	505	378	33.6%

During consultation with shareholders in 2013, it was agreed that, for the 2015 financial year, Steve Bowcott's salary would increase by 6.5%, plus the approximate average salary increase of all employees in the Group of 5%, subject to continued satisfactory performance.

The Committee reviewed Steve's performance during the year, noting in particular the breadth of his responsibilities as chief operating officer, which included a leading role in the operational integration of May Gurney and the Group's business-efficiency programme, and, having also taken into account external market factors, decided that it would be appropriate to award him an aggregate increase of 11.5 per cent.

Paul Sheffield's salary for the year commencing 1 July 2013 was £481,000. In line with previous years, the Committee proposed to increase the chief executive's salary by the same level as the average increases across the Group of 5%. The chief executive's salary for the year commencing 1 July 2014 therefore increased by 5%, to £505,000.

Haydn Mursell became chief executive with effect from 1 July 2014 and the Committee considered it appropriate to appoint him on the same level of base salary that the outgoing chief executive would have received. Further information is set out on page 67.

Annual bonus

The maximum annual bonus opportunity for each executive director will remain at 100% of base salary for the 2015 financial year. The performance measures and targets for the bonus are set out in the policy table on page 70. The targets for each performance measure, and performance against these targets, will be disclosed in next year's annual report.

LTIP awards

The executive directors will be granted LTIP awards of 150% of base salary. The performance conditions for these awards will relate to cumulative EPS growth and TSR outperformance (with equal weightings). The targets for both the EPS and TSR elements of the award are the same as for the awards granted in the 2014 financial year, as described on page 80.

Pension and taxable benefits

The executive directors will receive a pension contribution of 20% of salary, subject to the annual allowance, with the balance being paid as a cash allowance. The executive directors will also receive private health insurance and either a company car or a car allowance of £11,900 per annum.

Non-executive directors' fees

During the course of the year, there were a number of changes to the membership of the Board and its committees, as described previously in this annual report. When setting its remuneration policy, the Board therefore took the opportunity to review the overall fees paid to the non-executive directors (including the chairman) and to introduce a more formal structure, which the Board intends to review on an annual basis at the same time as it considers the executive directors' remuneration. The Company's remuneration

consultants, Kepler Associates ('Kepler'), were instructed to benchmark the fees using a range of external reference points. When reviewing the fees, the Board took into consideration, in particular, the increasing time commitments required of the non-executive directors.

The Board also decided to pay a separate fee to the senior independent non-executive director for this element of his role, having previously only paid a minimal fee.

Having considered the results of the benchmarking exercise, the Board agreed that the following fee structure would apply from 1 July 2014:

Role	Fee
Non-executive director	£46,000
Chair of Board committee	£10,000
Senior independent non-executive director	£10,000

The Committee also decided, having considered the information provided by the benchmarking exercise, that it would be appropriate to increase the fee payable to the chairman by 5%, so as to bring it more into line with fees paid by peer group companies. The chairman does not receive a fee for his work as the chair of the Nomination Committee.

The total fees which were payable to the non-executive directors with effect from 1 July 2014 are:

Director	From 1 July 2014	From 1 July 2013	Increase
Richard Bailey	£66,000	£53,825	22.6%
Kirsty Bashforth ¹	£46,000	-	-
Amanda Mellor	£56,000	£53,825	4.0%
Phil White	£173,000	£164,771	5.0%
Nick Winser	£56,000	£53,825	4.0%

¹ With effect from 1 September 2014.

Shareholder voting

At the 2013 annual general meeting, the results of the votes on the directors' remuneration report were:

	Total number of votes	% of votes cast
For (including discretionary)	23,321,435	76.24
Against	7,270,027	23.76
Total votes cast (excluding withheld votes)	30,591,462	100
Votes withheld	398,611	1.30
Total votes cast (including withheld votes)	30,990,073	-

In 2013, the Committee reviewed the executive directors' remuneration to ensure that it remained in line with the Group's remuneration policy and continued to support sustainable long-term value for shareholders. Following this review, the Committee consulted major shareholders in the summer of 2013, as referred to on page 67. Although many shareholders supported the Committee's proposals, some expressed concerns about certain of them. Following this feedback, a number of revisions were made to the original proposals, including:

- Phasing the salary increases for the finance director and the chief operating officer over two years;
- Making no change to the annual bonus opportunity (which remained at 100% of salary); and
- Increasing the executive director shareholding guidelines to 200% of salary.

Remuneration Committee membership

The members of the Committee are:

- Amanda Mellor (chair, since 21 February 2014)
- Richard Bailey
- Kirsty Bashforth
- Phil White
- Nick Winser

In addition, the chief executive is invited, from time to time, to attend meetings of the Committee. No individuals are involved in decisions relating to their own remuneration. The Committee met formally three times during the year. The secretary of the Committee is the company secretary.

Key activities of the Committee during the year included:

- Approving the 2013 directors' remuneration report;
- Approving the bonuses paid to the directors in respect of the 2013 financial year;
- Setting the performance measures relating to, and the quantum of, LTIP awards to be made to the executive directors during the 2014 financial year;
- Reviewing and setting the executive directors' remuneration for the 2015 financial year; and
- Reviewing the revised remuneration reporting regulations and preparing this report.

The terms of reference for the Committee can be viewed on the Company's website: <http://www.kier.co.uk>.

Remuneration Committee advisers

During the year, the Committee was advised by its independent remuneration advisers, Kepler. Kepler is a signatory to the Code of Conduct for Remuneration Consultants which has been developed by the Remuneration Consultants Group. Kepler was appointed by the Committee and provides no other advice, or services, to the Group and is therefore considered to be independent. Fees of £86,923 (excluding VAT) were paid to Kepler in respect of advice for the 2014 financial year. The Committee also seeks internal support and advice from the company secretary.

Despite these changes, however, certain shareholders (with a total number of shares of 7,270,027, representing approximately 13% of the issued share capital at the time) voted against the directors' remuneration report at the 2013 annual general meeting.

Directors' report

Introduction

The directors present their annual report and audited financial statements as at, and for the year ended, 30 June 2014.

The directors' report, together with the strategic report and other sections from the annual report, which are incorporated by reference, collectively comprise the 'management report', for the purposes of Disclosure and Transparency Rule 4.1.5R.

Results and dividends

The Group's profit for the year after taxation and exceptional items was £10.7m (2013: £25.6m*). An interim dividend of 22.5p per share (2013: 21.5p), amounting to £12.3m (2013: £8.5m), was paid on 16 May 2014. The directors propose a final dividend of 49.5p per share (2013: 46.5p per share), amounting to £27.1m (2013: £25.0m), payable on 28 November 2014 to shareholders on the register of members on 26 September 2014.

Future developments

An indication of the likely future developments of the business of the Company is set out in the strategic report on pages 1 to 51 (inclusive) and is incorporated by reference in this report.

Directors

The names of the directors of the Company during the reporting period are set out on page 58. Biographical details of the directors of the Company are shown on pages 54 and 55. Details of directors' interests in the Company's shares are disclosed in the directors' remuneration report on pages 67 to 85 (inclusive).

Qualifying third party indemnities

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

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

The UK Corporate Governance Code

A statement on the Group's corporate governance is set out on pages 56 to 59 (inclusive) and is incorporated by reference into this report.

Going concern

The going concern statement is set out on page 51 and is incorporated by reference into this report.

Political donations

No political donations were made during the year (2013: nil).

Financial instruments

Details of the financial risk management objectives and policies of the Group, together with its exposure to material financial risks, are set out in note 27 to the consolidated financial statements.

Research and development

The Group undertakes research and development activity in creating innovative construction techniques and designs for its projects. The direct expenditure incurred is not separately identifiable, as the investment is usually made within the relevant project.

* Restated figure, as per note 31 to the consolidated financial statements.

Employees

The companies in the Group are equal opportunities employers. The Group gives consideration to applications for employment made by disabled persons (having regard to their particular aptitudes and abilities) and encourages and assists, whenever practicable, the recruitment, training, career development and promotion of disabled people and the retention of, and appropriate training for, those who become disabled during the course of their employment and who can be employed in a safe working environment. The Group's approach to employee involvement, equal opportunities, health and safety and the environment is set out in the resources, relationships and sustainability report on pages 28 to 31 (inclusive) and is incorporated by reference into this report.

The Group provides relevant information on matters of concern to employees through newsletters, video addresses, the Group's intranet, social media and formal and informal meetings with various groups of employees and management. These aim to create a common awareness on the part of employees on matters affecting the performance of the Group. The Group also consults with employees to ascertain their views in relation to decisions which are likely to affect their interests. An example of this is the employee engagement survey which took place during the year.

The Group operates the Kier Group plc 2006 Sharesave Scheme ('the Sharesave Scheme') for eligible employees and makes available a dealing service to enable employees to buy and sell its shares with a minimum of formality. The Group also operates an all employee share ownership plan ('the AESOP') for all employees, which includes a share-matching element.

In addition, as a result of the acquisition of May Gurney, the Group operates the May Gurney Savings Related Share Option Scheme, which is similar to the Sharesave Scheme. The existing May Gurney shares in this scheme were exchanged by participants for new options over shares in the capital of the Company.

Greenhouse gas emissions

Information relating to the greenhouse gas emissions of the Company is set out on page 29 and is incorporated by reference into this report.

Share capital

As at 30 June 2014, the issued share capital of the Company comprised a single class of ordinary shares of 1p each. At that date, 55,264,354 shares in the capital of the Company were in issue. During the year, 491,764 shares were issued in relation to the scrip dividend alternative, 210,073 shares were issued in connection with the Sharesave Scheme and 14,714,445 shares were issued under a scheme of arrangement in relation to the acquisition of May Gurney Integrated Services Public Limited Company. As at 17 September 2014, 55,390,767 shares in the capital of the Company were in issue. Details of the Company's share capital are set out in note 24 to the consolidated financial statements.

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

Restrictions on transfer of securities in the Company

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

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

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

Substantial voting rights

As at 17 September 2014, the Company had been notified of the following interests in the ordinary share capital of the Company (being voting rights over such share capital), pursuant to Rule 5.1 of the Disclosure and Transparency Rules:

Shareholder	Interest ¹
Standard Life Investments Limited	7.9%
Schroders plc	5.4%
Blackrock Inc.	5.0%
Norges Bank	4.0%

¹ Subject to rounding.

Securities carrying special rights

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

Rights under employees' share schemes

As at 30 June 2014, RBC Trustees (Guernsey) Limited ('RBC'), as trustee of the Kier Group 1999 Employee Benefit Trust ('the Trust'), held 349,484 shares (0.63% of the issued share capital of the Company as at that date) on trust for the benefit of the employees of the Group. The Trust was established for the purposes of satisfying awards of shares made to individuals under the Group's remuneration and long-term incentive arrangements.

During the year, RBC waived the dividends payable in respect of these shares, but either received the dividends in respect of shares to which certain directors and senior managers are beneficially entitled as a result of their annual bonus being satisfied in part by an allocation of shares or elected to take up the scrip dividend with respect to these shares, as requested by the participants. RBC, in turn, transferred the dividends or allocated additional shares to the relevant directors and senior managers.

As at 30 June 2014, Computershare Investor Services PLC held 865,616 shares (approximately 1.57% of the issued share capital of the Company as at that date) on trust for the benefit of staff and former staff who are members of the AESOP.

As at 30 June 2014, the trustee of the May Gurney Limited Employee Share Ownership Trust and the trustee of the May Gurney Integrated Services plc Employee Benefit Trust held, respectively, 226,115 and 161,193 shares in the capital of the Company (together, 387,308 shares representing approximately 0.70% of the issued share capital of the Company as at that date) on trust for the benefit of employees of May Gurney. Both trusts were established for the purposes of satisfying awards of shares to individuals under May Gurney's remuneration and long-term incentive arrangements. During the year, the trustees waived the dividends payable in respect of these shares.

Voting

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

Restrictions on voting rights

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

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

Appointment and replacement of directors

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

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

Pursuant to the Articles, at every annual general meeting of the Company, one-third of the directors who are subject to the requirement to retire by rotation (not including any director who was appointed by the Board and is standing for election) will retire from office and may offer themselves for re-election by the members. The directors to retire by rotation will be those who have been longest in office since their last election. However, at the forthcoming annual general meeting of the Company, notwithstanding the provisions of the Articles, all the directors will offer themselves for re-election in accordance with The UK Corporate Governance Code.

The Company may by ordinary resolution, of which special notice has been given, remove any director before the expiry of the director's period of office. The office of a director will be vacated if:

- The director becomes bankrupt or the subject of an interim receiving order or makes any arrangement or composition with his creditors generally or applies to the court for an interim order in connection with a voluntary arrangement under the Insolvency Act 1986;
- The director is certified as having become physically or mentally incapable of acting as a director and may remain so for more than three months;
- The director ceases to be a director by virtue of the Companies Acts or becomes prohibited by law from being a director;
- The director receives written notice from not less than three-quarters of the other directors removing the director from office; or
- In the case of a director who holds executive office, the director ceases to hold such office and the majority of the other directors resolve that the relevant director's office be vacated.

Directors' report continued

Amendment of Articles

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

Powers of the directors

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

Powers in relation to the Company issuing its shares

The directors were granted authority at the annual general meeting on 14 November 2013 to allot shares in the Company in accordance with section 551 of the Companies Act 2006 (i) up to an aggregate nominal amount of £182,403 and (ii) up to an aggregate nominal amount of £364,806 in connection with a rights issue. The directors were also granted authority to allot shares non-pre-emptively and wholly for cash up to an aggregate nominal amount of £27,360. In addition, at the same annual general meeting, an ordinary resolution was approved which grants the directors the authority to continue to offer the scrip dividend alternative. In accordance with the requirements of investor protection committees, this authority is renewed every five years.

Powers in relation to the Company buying back its shares

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

Change of control

The Company has entered into certain agreements that may take effect, alter or terminate upon a change of control of the Company following a takeover bid. The significant agreements in this respect are:

- The Company's £120m revolving credit facility agreement dated 31 May 2012 entered into with HSBC Bank plc, Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Santander UK plc;
- The Company's £30m term facility agreement dated 11 January 2013 entered into with Lloyds TSB Bank plc;
- The Company's £50m term loan facility and £70m revolving credit facility agreement dated 22 April 2013 entered into with HSBC Bank plc, Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Santander UK plc (together with the £120m and £30m facility agreements, 'the Facility Agreements');
- The Company's £45m and \$28m note purchase agreement dated 20 December 2012 ('the Note Purchase Agreement'); and
- Certain of the Group's employee share schemes.

Each of the Facility Agreements includes a provision under which, in the event of a change of control of the Company, the lenders may cancel all or any part of the relevant facility and/or declare that all amounts outstanding under the relevant facility are immediately due and payable by the Company.

The Note Purchase Agreement includes a provision under which, in the event of a change of control of the Company, the Company is obliged to offer to prepay the notes issued pursuant to the agreement.

Outstanding options granted under the Sharesave Scheme and the May Gurney Savings Related Share Option Scheme may be exercised within a period of six months from a change of control of the Company following a takeover bid (or will lapse upon the expiry of such a period).

Awards granted under the Group's long-term incentive plan (which is described in the directors' remuneration report) may vest on a change of control of the Company following a takeover bid and the maximum number of shares in the Company to be awarded upon such vesting may become immediately due.

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

Auditor

The Board has decided that PricewaterhouseCoopers LLP will be proposed as the Group's auditor for the financial year ending 30 June 2015 and a resolution relating to this appointment will be tabled at the forthcoming annual general meeting.

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

Annual general meeting

The annual general meeting of the Company will be held at 12 noon at the Andaz Hotel, 40 Liverpool Street, London, EC2M 7QN on 13 November 2014.

This report was approved by the Board on 17 September 2014 and signed on its behalf by:

Hugh Raven

Company Secretary

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Statement of directors' responsibilities

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

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

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, as adopted by the EU;
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole;
- 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; and
- The annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Signed on behalf of the Board by:

Haydn Mursell
Chief Executive