Kier Group plc

annual report and accounts
for the year ended 30 June 2003

building the business






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

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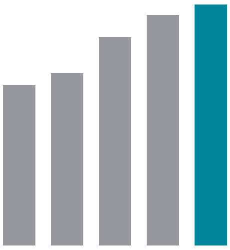
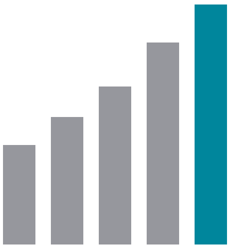


Turnover

£1,445.6m

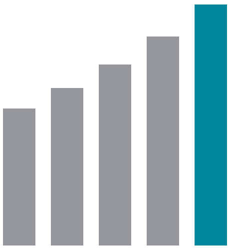
increase 4.5%



Profit before tax

£33.3m

increase 18.9%



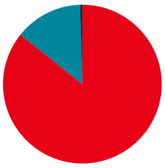
Dividends

16.4p

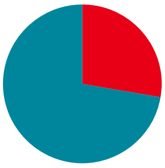
increase 15.5%

Contribution by operating sector

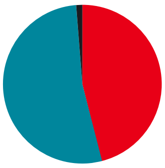
Turnover



Operating profit



Profit before tax



- Construction & Services
- Homes & Property
- Infrastructure Investment

Highlights

- Growth continues for eleventh successive year
- 23.2% compound annual growth in earnings per share over seven years
- Operating profit up 29.4% to £33.9m
- Profit before tax at £33.3m up 18.9%
- Dividend increased by 15.5% to 16.4p
- Strong cash performance: £53.5m generated from operating activities

Kier Group structure

Construction & Services

Kier Regional

Mid-range construction projects delivered by locally managed business units across the UK

Turnover

£787.6m

Principal businesses

IEI Building Services Engineers
Kier Eastern
Kier London
Kier Northern
Kier North West
Kier Partnership Homes
Kier Scotland
Kier Southern
Kier Western
Marriott Construction
Moss Construction
Wallis

Kier National

Major building, civil engineering & mining projects and plant hire in the UK and overseas

Turnover

£334.9m

Principal businesses

Kier Build
Kier Construction
Kier Plant

Kier Support Services

Outsourcing of managed services, including FM services for PFI and PPP projects, and building maintenance for commercial clients, local authorities and other social landlords

Turnover

£115.4m

Principal businesses

Caxton Consulting
Caxton Islington
Caxton Facilities Management
Kier Building Maintenance
Kier Sheffield

Homes & Property

Infrastructure Investment

Kier Residential
High quality private housebuilding

Turnover

£180.1m

Principal businesses
Allison Homes
Bellwinch Homes
Kier Homes
Kier Land
Twigden Homes

Kier Property
Commercial property development

Turnover

£21.2m

Principal businesses
Kier Developments
Kier Ventures
Kier Whitehall Place

Kier Project Investment
Promotes and manages the Group's interests in the Private Finance Initiative, creating concession holding businesses in healthcare, education and other local services

Turnover

£6.4m

Principal businesses
Kier Project Investment
- Academy Services (Tendring)
- ASK (Greenwich)
- Baglan Moor Healthcare
- Information Resources (Bournemouth)
- Prospect Healthcare (Hairmyres)
- Prospect Healthcare (Reading)

Board members

Executive directors

Colin Busby

Aged 59, led the employee buy-out in 1992 and was both chairman and chief executive until May 2003 when his role became exclusively that of chairman. His service with the Group began in 1969 and he held senior appointments in the international and UK construction divisions between 1978 and 1992. He is chairman of the Nomination Committee and in June 2003 was appointed president of the Chartered Institute of Building for a 12-month term.

John Dodds

Aged 58, was appointed chief executive in May 2003 and has been with the Group since 1970, working much of the time overseas, particularly in Africa and Hong Kong. He also spent time controlling major civil engineering in the UK and since the buy-out has been responsible for major projects, mining and international contracting. He is also responsible for the Group's infrastructure investment activities and is the director with overall responsibility for health & safety and environmental matters.

Deena Mattar

Aged 38, was appointed to the Board as an executive director in September 2001. She joined Kier in 1998 from KPMG where she developed an in-depth knowledge of construction. She held the role of finance director of Kier National, the Group's major building and civil engineering projects arm, until July 2001 and was appointed Group finance director in November 2001.

Robert Gregory

Aged 49, has extensive knowledge of working within Kier and during the 1980s spent a number of years working on financial assignments in the UK and in the UAE. He joined Kier Residential in January 1994 as finance director of Twigden Homes and was a key player in the Group's housebuilding acquisitions and the start up of housing activities in Scotland. He was promoted to finance director of Kier Residential in 1998 and to managing director of Allison Homes, following its acquisition in September 2001 and joined the Board in July 2003.

Dick Side

Aged 56, joined Wallis in 1983 as managing director of its Construction Division. His 20-year career with the Group has been spent in regional contracting and he was appointed managing director of Kier Regional in 2001. In January 2003 he became main board director responsible for the Group's regional construction division.

Dick Simkin

Aged 55, joined the Group in 1989 and has made a significant contribution to strengthening Kier's presence in the property sector. He played a key part in the Group's acquisition of Laing Property and was appointed to the Board in January 2003 as director responsible for the Group's property division.

Non- executive directors

Peter Berry

Aged 59, is chairman of The Crown Agents for Oversea Governments and Administrations Limited. He is also chairman of Martin Currie Portfolio Investment Trust plc, a non-executive director of Henderson TR Pacific Investment Trust PLC and an advisor to the Corporation of London on international and economic development. He was appointed to the Board in 1997 and is senior independent director, chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

Peter Warry

Aged 54, is chairman of Victrex PLC and a non-executive director of BSS Group PLC and of the Office of the Rail Regulator. Previously he was an executive director of British Energy PLC and chief executive of its English generating company. He was appointed to the Board in 1998 and is a member of the Audit, Nomination and Remuneration Committees.

Simon Leathes

Aged 55, is vice chairman for support services at Barclays Capital, the investment banking division of Barclays PLC. He previously held senior appointments at Lend Lease Corporation, Hambros PLC and SG Warburg Group plc. He was appointed to the Board in March 2001 and is chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

FROM LEFT
Colin Busby
Deena Mattar
John Dodds

FROM LEFT
Dick Simkin
Dick Side
Robert Gregory

FROM LEFT
Peter Berry
Peter Warry
Simon Leathes

Chairman's statement

"Our integrated business model... has provided consistent growth in overall profits..."

Overview

I am pleased to report that Kier Group plc has achieved another excellent performance this year with turnover and profit at record levels. Our integrated business model, the fundamentals of which have remained unchanged for 10 years, has provided consistent growth in overall profits with compound growth in earnings per share of 23.2% per annum over the seven years since flotation.

Financial performance

Operating profit, including the Group's share of joint ventures, rose 29.4% to £33.9m (2002: £26.2m) on turnover up 4.5% at £1,445.6m (2002: £1,382.7m). Profit before tax increased by 18.9% to £33.3m (2002: £28.0m) and earnings per share of 69.5p rose 15.1% (2002: 60.4p). Profit before tax increased by 22.0% and earnings per share by 19.2% after adjusting for the exceptional profit of £0.7m on the partial disposal of an interest in a subsidiary undertaking in 2002. The cash performance has again been excellent with a record £53.5m generated from operating activities.

Our Construction & Services segment has seen a modest growth in profits during the year. Kier Regional continues to be the contractor of choice for many of our clients and has achieved an outstanding performance in the year, enhanced by profits arising on the finalisation of accounts on a number of contracts. However this performance was tempered by post acquisition losses recorded within Partnerships First, the social housing business acquired in November 2002 as a strategic long-term investment to take advantage of opportunities arising from the increasing Government spend on social housing. In Kier National, another excellent performance achieved in our international business was overshadowed by losses in the UK major projects building business, largely caused by two contracts. In Support Services we secured the 10-year £640m outsourcing contract for Sheffield City Council in March 2003 and are pleased to report that it is trading in line with expectations.

The Homes & Property divisions have each performed strongly this year with overall operating profits up 45.9%. Kier Residential has enjoyed a steady demand for its quality product and has benefited from a full year of contribution from Allison Homes. Our property development business has been transformed by the acquisition, in joint venture, of Laing Property in April 2002.

The Board proposes a final dividend for the year ended 30 June 2003 of 11.2p to be paid on 9 December 2003 to shareholders on the register at close of business on 3 October 2003. This dividend, when added to the interim dividend of 5.2p totals 16.4p for the year (2002: 14.2p) and is covered 4.2 times by basic earnings per share of 69.5p. The dividend represents a 15.5% increase over that for 2002; the sixth successive year in which the dividend has increased by 15% or more.

In February 2003 we completed a private placing of debt raising a total of £30.1m in order to lengthen the maturity of our borrowings and to provide an appropriate structure to support the continuing development of the Group. At 30 June 2003 the net cash position, after borrowings, was £62.0m (2002: £46.4m) including an advance payment in respect of the sale of the Whitehall property development, much of which is expected to unwind over the next 12 months.

Pensions

A combination of falling equity values and interest rates as well as the mature nature of our pension liability profile has resulted in a net deficit, on an FRS 17 basis, in the Kier Group Pension Scheme of £79.7m at 30 June 2003 (2002: £46.3m). The Group continues to review its strategy for providing pension benefits to all of its employees and a number of measures have been taken to reduce the deficit: the final salary section of the Pension Scheme was closed to new members on 1 January 2002 (a defined contribution arrangement is now offered), employer's contributions have increased by 1% of payroll (£2.0m), employees' contributions are increasing by 1% and changes have been made to early retirement terms.

The Scheme is likely to enjoy positive net cash flows for the next nine years, excluding the sale of investments, which provides sufficient time in which to establish whether the current deficit is a transient outcome of depressed bond yields and equity prices or whether a more substantial response is required.

Markets

Activity in the Construction & Services markets was strong in the year to June 2003 with Government spending on the increase and private sector spending slowing slightly, although still at reasonable levels. Contract awards in our Regional division totalled a record £760m (2002: £670m). The order book in Support Services benefited from securing the £640m, 10-year building maintenance contract for Sheffield City Council in March 2003. There is a growing market for similar contracts and we believe we are well positioned to benefit from these opportunities.

Demand for houses in our areas of operation continued through the second half of the year. Consumer confidence suffered a little during the Middle East conflict but activity has now returned to satisfactory levels. Scotland has been a particularly good market with prices continuing to increase. In the southern area of our operations our strategy to reduce unit size has proved successful.

The acquisition of the Laing Property portfolio, in joint venture with the Bank of Scotland, has increased our profile in the property market thereby providing us with many good opportunities. There is still a market in property offering reasonable returns, without undue risk, by combining the two vital ingredients of a good tenant and a good location.

Strategy

The strategy for the Group continues to be underpinned by our business model. As cash continues to be generated by our high volume, low margin construction businesses we have continued to invest in asset based businesses that provide greater returns.

Growth in our Construction & Services businesses has largely been achieved organically, although the acquisition of Partnerships First has contributed to turnover growth in Kier Regional in the year. In Kier National the strategy to reduce risk by seeking more partnered and negotiated work has resulted in reduced turnover and awards. Within Support Services the building maintenance business continues to benefit

Chairman's statement continued

from the Government's 'best value' initiative and, with more of this work available in the market, is expected to achieve further growth.

The Homes & Property operations continue to grow both organically and from corporate acquisition. Although no acquisitions were made in 2003 the previous year saw two key purchases: Allison Homes and Laing Property. Both of these businesses have performed well in the period since acquisition and Allison Homes, in particular, has contributed strongly to the results for the year.

We were pleased to be announced preferred bidder on two further Private Finance Initiative (PFI) projects, Hinchingbrooke Hospital and Waltham Schools. These projects will increase our portfolio of PFI investments to eight and further enhance our track record in the health and education sectors. We remain committed to selective investment in PFI projects.

The combination of our businesses and the effective use of our cash resources have resulted in a return on shareholders' funds of 40% or more for six consecutive years.

The Board

As announced at the time of our interim results, my previous role of Chairman and Chief Executive has now been separated; John Dodds has taken on the role of Group Chief Executive from 1 May 2003 and I have retained the role of Chairman. My focus is primarily on strategic issues with John's on operational issues. John has vast knowledge of the construction industry and in-depth knowledge of Kier and his experience has continued to benefit the Group in this wider role.

Martin Scarth and David Homer retired at the end of the financial year. I would like to express my thanks to Martin and David for their significant contributions to the Group, each having developed key businesses that have become core to the successful performance of the Group. We wish them both well in their retirement. Since last year three new appointments have been made to the Board: Dick Side, Managing Director of the Regional construction division; Dick Simkin, Managing Director of the Property division; and more recently Robert Gregory, Managing Director of the Residential division. While each brings with him substantial experience within the Group their appointments bring fresh ideas and a new perspective to the Board and will maintain our drive to develop the Group.

Employees

On behalf of the Board I would like to thank all our employees for their commitment and contribution to the continued success of the Group.

Prospects

At £1.75bn our order books in Construction & Services are now at record levels. In Homes we commenced the new year with strong order books and sales and reservations have been maintained at a healthy rate. Our property development portfolio is providing us with good opportunities.

The markets in all of our sectors remain sound. In Construction the market is underpinned by Government spending; in Support Services building maintenance work for local authorities will provide us with opportunities; and in Homes a combination of low interest rates and undersupply of houses continues to support the levels of demand required to meet our targets. All this, together with the quality of our management teams, their skills, experience and commitment, ensure we are well placed to continue to deliver further improved performance and growth.

Colin Busby
Chairman

"The combination of our businesses and the effective use of our cash resources have resulted in a return on shareholders' funds of 40% or more for six consecutive years."

Chief executive's review

"Our strong performance again this year can be attributed to the quality of our management teams and the structure of our Group..."

Overview

2003 has been another record year for Kier. Turnover increased by 4.5% to £1,445.6m (2002: £1,382.7m) and profit before tax, excluding the exceptional profit of £0.7m arising on the partial sale of a subsidiary undertaking in 2002, rose by 22.0% to £33.3m (2002: £27.3m). All of our reporting segments have performed ahead of last year and are well positioned to achieve further growth.

Our strong performance again this year can be attributed to the quality of our management teams and the structure of our Group; particularly our integrated business model which operates in different yet complementary markets. This gives us flexibility and provides protection against exposure to any particular market. In our Construction & Services segment we have businesses that provide a range of services with an extensive spread of activities across the UK and selectively overseas; in Homes each of our four brands is well established in its own locality and offers a broad range of product type; in Property the acquisition of Laing's property portfolio, in joint venture last year, has increased our visibility in the property world providing us with many opportunities. We continue to invest in the Private Finance Initiative (PFI), but not extravagantly. We remain focused on particular sectors and projects where we believe we have a competitive edge.

The principal feature of our business model is that it provides consistency in the delivery of profit. I am confident that our businesses will continue to respond to each of their markets and to provide results which will ensure that the Group maintains this consistency in the future.

Chief executive's review continued

Construction & Services

Construction & Services recorded an operating profit of £12.9m (2002: £12.5m) an increase of 3.2% with a good contribution from Kier Regional's businesses. Turnover was 1.6% ahead of last year at £1,237.9m (2002: £1,218.4m).

On 26 November 2002 the Group disposed of its 49% investment in Belan Limited and acquired 100% of the shares in Partnerships First Limited (Belan's social housing subsidiary) in a strategic move to gain a greater market share in the growing social housing market. The business is included within Kier Regional and in the period following acquisition a thorough review of contracts has been undertaken; Kier Regional's procedures and policies have been adopted and changes have been made to the senior management team. Whilst the business has recorded a loss during the seven months since acquisition we believe that, in time, it will make a good contribution to the Group. The losses incurred by Partnerships First have extinguished profits recorded from a number of favourable final account settlements on contracts in Kier Regional's other operations and have moderated, what would otherwise have been, an exceptional performance from Kier Regional. Within Kier National a modest loss was recorded overall largely due to loss provisions taken on two major building projects; however an excellent result was achieved from our international business as some of our longer term contracts come to an end.

On 31 March 2003 we achieved financial close on the £640m building maintenance contract for Sheffield City Council, which involved acquiring the business of its Construction and Building Services operation. This acquisition, together with Partnerships First, has resulted in £21.1m of goodwill in the balance sheet at 30 June 2003 which is being written off over a period of ten years.

Overall the operating margin achieved in Construction & Services at 1.04% was in line with last year. Our ambition in this segment is to achieve operating margins of 1.5% in the medium term.

Construction

Kier Regional achieved an excellent performance in the year, turnover rose by 8.6% to £787.6m (2002: £724.9m) and cash, on average, £15.0m ahead of 2002, reflected this strong result. The business operates from 31 offices providing wide coverage throughout the UK; more extensive we believe, than any other regional contractor. This coverage, together with its flexibility to respond to changing market places and its low risk profile, has ensured Kier Regional maintains a healthy order book and continues to provide a robust and consistent performance.

The value of awards in the year to 30 June 2003 increased to a record £760m, from £670m in 2002. The percentage of awards for public sector clients increased to 31% (2002: 23%) largely due to awards in the health and education sectors. Despite the increase in public sector work, which tends to be competitively tendered, the percentage of negotiated and partnered work has been maintained at around 42% with sectors such as retail and commercial, which offer more opportunity for negotiated work, still providing the highest values of awards.

Further growth is anticipated in Kier Regional's turnover next year. The order book of £430m at 30 June 2003 continues to grow and we enjoy a strong pipeline of opportunities.

We were pleased to learn that we have been selected as a framework partner by the NHS Estates for its ProCure 21 initiative. The framework is to carry out some £1.4bn of capital projects per annum for five years with work distributed amongst an exclusive group of 12 partners.

In Kier National, our major projects division, turnover has reduced to £334.9m (2002: £412.6m) in line with our programme to restructure the business and to reduce risk. A further reduction in turnover is anticipated in 2004. As part of the restructuring programme the operations of Kier Construction (UK civil engineering, rail and mining) have been combined with those of Kier International under one management team. The international business has continued to perform well and has exceeded expectations with particularly strong performances from our operations in the Caribbean, the Middle East and Hong Kong. The result is not expected to be repeated as it reflects the completion of some of our longer term contracts. In the UK good progress is being made on our two contracts on the Channel Tunnel Rail Link and our framework agreement with United Utilities in the north west of England has grown with work now under way or complete on 53 sites.

Within the UK major projects building business, good contributions from a number of contracts have been overshadowed by loss provisions taken

"our order books are strong in Construction and Housing; plenty of opportunities are available in the Support Services and Property markets..."

primarily on two projects: the headquarters for TAG McLaren in Woking and a retail project in Bournemouth. Both contracts are nearing completion and we are focused on improving upon the final outturn recorded in the financial statements.

Support Services

Our Support Services business achieved turnover of £115.4m for the year (2002: £80.9m) and, with the financial close in March 2003 of the £640m 10-year building maintenance contract for Sheffield City Council, puts us on course to achieve the medium term turnover target, which we established last year, of £150m to £200m per annum. The potential market for local government building maintenance contracts under the Government's 'best value' programme is significant and, with our current portfolio of such contracts, we believe we are the market leader in this type of work. Our other focus within Support Services, that of Managed Services, is continuing to grow. The range of services has broadened and includes PFI work. The Support Services division increasingly enables the Group to provide a fully integrated managed service to our clients.

Homes & Property

An excellent performance was achieved in this segment with Kier Residential and Kier Property both contributing to the 45.9% growth in operating profit to £32.4m (2002: £22.2m) on turnover up 26.8% to £201.3m (2002: £158.8m).

Residential

Kier Residential sold 990 units in the year to 30 June 2003, a 12.9% increase over the 877 completions in 2002 and, with average selling prices up 9.5% to £181,900 (2002: £166,100), we recorded an increase in turnover of 23.7% to £180.1m (2002: £145.6m). Operating profit increased by 28.9% to £26.3m (2002: £20.4m); an improvement in the margin to 14.6% from 14.0% in 2002 reflecting our continuing focus on margins and profits. Operating profit per unit increased by 14.2% to £26,600 from £23,300.

A further £57.2m was invested in new land across all operating areas; this was less than last year reflecting a highly competitive land market and a desire to acquire appropriate sites at sensible margins. Consequently there has been a modest reduction in the number of owned or controlled plots to 3,700 plots (2002: 3,814 plots) representing 3.7 years of land-bank. Our target is to hold between 3.5 and 4 years of land and we are planning further investment during 2004. In addition to consented land we control some 12,000 plots of strategic land which we are taking through the planning system. Whilst only 13% of our unit sales in the year emanated from strategic sites, this proportion is expected to grow as more strategic land is being converted into sites ready for development and will contribute to our profit margins in due course.

Demand has remained strong across all our areas of operation. Our order book at 31 August 2003 at £55.9m was 9% ahead of last year providing a good start to the new year. We are not exposed to the central London market and have only a few, carefully selected, sites within the M25 in line with our strategy since we commenced our housebuilding activities.

Property

The acquisition, last year, of Laing's property portfolio, in joint venture with the Bank of Scotland has provided the critical mass required to transform Kier Property into a major player in the property market. Opportunities are being presented to us on a regular basis as our network of contacts continues to grow. Since this acquisition the Group's property activities are divided between those in which the Group is engaged directly (Kier Ventures) and those that operate through the joint venture with the Bank of Scotland (Kier Developments). Within Kier Ventures the significant event during the year was securing the sale of the Whitehall development in December 2002. This development is being constructed by Kier Build and good progress is being made. Profit on this sale is recognised over the life of the two year construction contract. At Waltham Point, where Kier Ventures is in joint venture with Morley Fund Management, the 700,000sq ft regional distribution centre for J Sainsbury, situated alongside the M25, was sold.

Within Kier Developments good progress has been made on some early opportunities providing the Group with profits ahead of expectation.

Infrastructure Investment

In October 2002, we were pleased to announce the award of our first PFI care homes project in Greenwich which is under construction by Kier Regional. In December 2002 we were announced preferred bidder on our fourth PFI hospital, Hinchingbrooke, on which we are hopeful of achieving financial close in the near future. In August 2003 we were delighted to be announced preferred bidder on the Waltham Schools project

Chief executive's review continued

which involves the construction of eight schools by Kier Regional under a £50m construction contract. This last project strengthens our track record in PFI schools and will bring our total committed investment in PFI projects to £13.8m with an expected average yield of over 15%. We are also bidding for a number of other projects focusing on our traditional areas of health, education, care homes and libraries. Our approach to bidding, as ever, remains cautious as we are concerned about the time and costs expended on bidding for these projects. This year £1.6m has been charged to profits in respect of overheads and bidding costs (2002: £1.2m). We expect this level of investment to continue.

Health & Safety

Kier Group recognises that achieving and maintaining high standards of health and safety is integral to the success of our business performance and objectives. Significant emphasis is placed on the reporting of incidents in order that even the most minor can be effectively scrutinised to gain knowledge and prevent reoccurrence.

Our procedures and processes are regularly reviewed to ensure that they are user friendly and that standards set are linked to industry best practice and can be delivered by all who form part of the supply chains. During 2002 a decision was taken at Board level to have our Health & Safety Management System assessed by BSI for accreditation to OHSAS 18001 standards. This assessment has taken place and our systems gained the award of compatibility with 18001 standards. A programme of audits is in progress throughout each division within the Group to ensure all companies are operating to OHSAS 18001 requirements.

During the year to 30 June 2003 Kier Group's Accident Incident Rate was 747 per 100,000 staff and contractors and compares favourably with the Health & Safety Executive average for our sector of 1,097.

During the year Kier companies were awarded recognition by the Health and Safety Executive, the Royal Society for the Prevention of Accidents and the British Safety Council, a fitting tribute to the standards and efforts being achieved by our managers and staff.

The environment

Kier Group companies are committed to working closely and sensitively within the environment and communities they serve, recognising that the industry as a whole carries the potential to cause harm. As part of a continuing commitment to the Group's environmental performance the Group's overall policy has been updated this year with policies set which are specific to the nature of each of our businesses. The Group has measured its performance against a range of five benchmark targets for the last two years and has set targets for improvement over the year to 30 June 2004. These benchmarks include the costs of waste disposal, energy usage and CO_2 emissions.

Training

It is important that we recruit and maintain the right people with the appropriate skills, enthusiasm and integrity. Our objective is to ensure that our employees are of the highest calibre and can add value to our business and we recognise that it is our responsibility to provide an appropriate programme of training.

Our training department continues to provide a range of courses with the aim of developing the entire workforce to be best in class. The Group also recognises its responsibility in recruiting and training young people. This year 60 new graduates and 50 students have been recruited to start their professional careers with Kier and over 150 employees are currently studying for technical qualifications on various training schemes having joined the Group as school leavers.

Summary

The year to 30 June 2003 has been a busy and challenging one for the Group and it is only with the commitment, skill and professionalism of our employees that another record year of profits was achieved.

I would like to thank all our employees at every level throughout our many businesses for their contribution to the continuing success of the Group.

The Group is well placed going forward; our order books are strong in Construction and Housing; plenty of opportunities are available in the Support Services and Property markets and we have high quality, well motivated management teams for whom I have great respect. All of this gives me confidence for the future.

John Dodds
Chief Executive

Financial review

"The cash performance has been excellent with £53.5m generated from operating activities..."

Overview

The Group has delivered a further year of growth with record earnings per share and profits before taxation. Basic earnings per share increased by 15.1% to 69.5p (2002: 60.4p) resulting in compound growth of 23.2% per annum in the seven years since flotation. Profit before tax increased by 18.9% to £33.3m (2002: £28.0m). The cash performance has been excellent with £53.5m generated from operating activities.

On 26 November 2002 the Group disposed of its 49% investment in Belan Limited and acquired 100% of the shares in Partnerships First Limited, Belan's social housing subsidiary, for no net consideration together with its overdraft of £1.9m. Goodwill of £5.8m is included in the Group balance sheet at 30 June 2003 in connection with the transaction. Since its acquisition the accounting policies and procedures adopted by the company have been brought into line with those of Kier Regional and losses of £7.7m (including goodwill amortisation) arising from the business have been included in Kier Regional's result for the year countering an exceptional performance from the other Regional businesses. On 31 March 2003 we achieved financial close on the 10-year building maintenance contract for Sheffield City Council and, effectively, acquired the business of its Construction and Building Services operation. £9.6m was paid up front with deferred payments of £1.4m per annum which, when discounted, has resulted in goodwill of £15.3m in the balance sheet at 30 June 2003.

There have been no changes to accounting policies in drawing up these financial statements.

Business model

The business model adopted by the Group has been fundamental to its successful performance since 1992. The principle of using cash generated by the Construction divisions and investing it in Homes & Property and Infrastructure Investment has provided the Group with sound, consistent profits and return on shareholders' funds of 40% or more for six consecutive years.

Profit before tax

Profit before tax of £33.3m is net of £0.9m relating to goodwill amortisation and profits for 2002 of £28.0m included £0.7m relating to the partial disposal of an investment. Excluding both of these items, growth in profits before tax is 25.3% with all segments contributing.

Turnover, orders and land-bank

Group turnover, including share of joint ventures, increased by 4.5% to £1.45bn.

The Construction & Services segment showed modest growth; Kier Regional's turnover of £787.6m was 8.6% ahead of last year whilst in Kier National the strategy to reduce risk and to focus on partnered and negotiated work has resulted in a smaller business with turnover reducing by 18.8% to £334.9m. Support Services' turnover of £115.4m rose by 42.6% with a contribution of £14.1m from the contract with Sheffield City Council.

Order intake in the year to 30 June 2003 in Kier Regional was £760m compared with £670m in 2002 and Support Services benefited from the £640m, 10-year contract with Sheffield City Council. As planned, Kier National's orders were low at £69m compared with £307m in 2002, in line with its new focus and risk strategy. At 30 June 2003 total confirmed orders in hand stood at £1.75bn (2002: £1.2bn) with order intake to date remaining strong and a healthy pipeline of opportunities awaiting confirmation.

Financial review continued

Turnover in Homes & Property increased by 26.8% to £201.3m (2002: £158.8m) with growth arising in both divisions.

Kier Residential's turnover of £180.1m was 23.7% ahead of last year based on an increase in the number of unit sales to 990 (2002: 877) and higher average selling prices of £181,900 (2002: £166,100). £57.2m was invested in new land, less than in the previous year due to the competitive market place, hence the number of plots owned or controlled has reduced to 3,700 (2002: 3,814 plots) at an average price of £44,500 (2002: £42,200). In addition there are approximately 12,000 plots in the strategic land-bank. Forward orders and completions at 31 August 2003 are 9% ahead of last year.

In Kier Property turnover was achieved from a number of joint venture development sales and on securing the advance sale of an office development in Whitehall.

In Infrastructure Investment turnover relates to projects which have become operational and includes Neath Port Talbot and Prospect Park Hospitals and Greenwich Care Homes for the first time this year.

Operating profit, margins and return on capital

Group operating profit, including share of joint ventures, of £33.9m was 29.4% ahead of last year's £26.2m.

In Construction & Services a 3.2% increase in operating profit was achieved at £12.9m (2002: £12.5m). The margin on turnover was 1% (in line with the previous year). Within overall operating profit the strong performance from Kier Regional has been moderated by losses incurred in the social housing business, Partnerships First Limited. In Kier National the overseas contribution was again strong at £7.8m (2002: £6.3m) benefiting from a number of profitable long-term contracts which are now coming to an end. However this contribution was overshadowed by losses in the UK major projects business largely due to provisions taken on two contracts.

The 45.9% growth in operating profit in Homes & Property includes a full year of contribution from Allison Homes. Within Kier Residential operating margins rose to 14.6% (2002: 14.0%) and in Property they rose to 28.8% (2002: 13.6%). In Residential return on average capital employed was 16.0% (2002: 16.7%).

Infrastructure Investment made an operating loss of £0.5m (2002: £0.6m) after charging bidding and overhead costs of £1.6m (2002: £1.2m).

Centre costs of £8.6m (2002: £7.9m) include net costs of bidding and promoting Support Services' 'best value' and PFI contracts of £1.5m (2002: £1.1m), and a provision for the estimated costs of the Long-Term Incentive Plan of £2.1m (2002: £1.9m).

Taxation

The tax charge of £9.5m (2002: £7.7m) has benefited from adjustments to prior years, capital losses and capital allowances partially offset by the loss on the investment in Belan Limited. It represents an effective tax rate of 28.5%, 1% higher than for 2002.

Earnings per share and dividend

Undiluted basic earnings per share of 69.5p represent a 15.1% increase on 2002's unadjusted earnings per share of 60.4p and a 19.2% increase after excluding the exceptional profit of £0.7m on the partial disposal of an interest in a subsidiary undertaking in 2002.

The proposed final dividend of 11.2p (2002: 9.7p) makes 16.4p (2002: 14.2p) for the year, an increase of 15.5%, the sixth year in succession that the dividend has increased by 15% or more. The dividend is covered 4.2 times by basic earnings per share.

Balance sheet and shareholders' funds

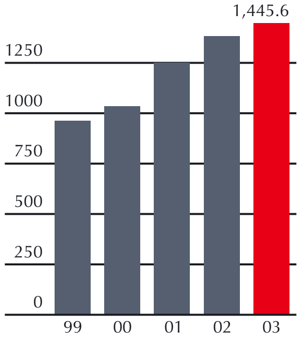
The balance sheet at 30 June 2003 includes goodwill of £21.1m; £5.8m relating to the acquisition of Partnerships First Limited and £15.3m to the contract for Sheffield City Council (of which £7.1m relates to deferred consideration). This will be written off over a period of ten years with £0.9m charged to profits in 2003 and £2.7m to be charged to profits in 2004.

Shareholders' funds have increased by £18.9m to £93.4m (2002: £74.5m) arising from retained profits of £18.2m, currency translation of £(0.8)m and the proceeds of the issue of 417,603 new shares of which 294,052 were issued in lieu of dividends and the remainder to satisfy options maturing under the Sharesave and the Performance Related Option Schemes.

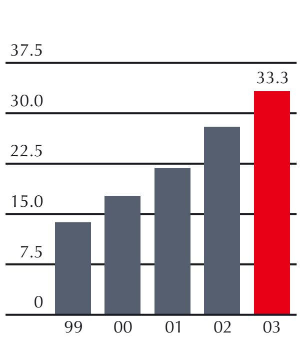
Cash flow, facilities and foreign currency exposure

Net cash inflow from operating activities was £53.5m (2002: £50.0m), boosted by the advance sale of a property development in Whitehall which is under construction and in respect of which we received a significant advance payment in December 2002. The advance cash will reduce as the construction contract

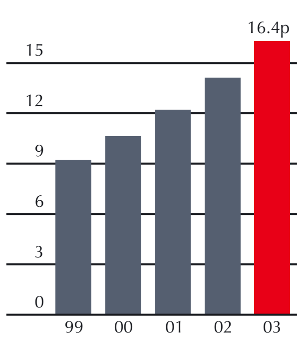
Turnover (£m)



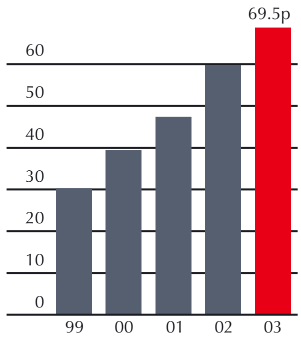
Profit before tax (£m)



Dividend per share (p)



Earnings per share (p)



progresses over its two-year life. During the year further payments were made in respect of acquisitions, largely deferred consideration in respect of Allison Homes (£2.2m), the overdraft balance acquired with Partnerships First Limited (£1.9m) and goodwill and assets relating to the Sheffield contract (£9.6m). In February 2003 we completed a private placement of loan notes amounting to £30.1m (net of costs) repayable in 10 years and fixed at 6.4%. The rationale for this is to provide the Group with lengthier borrowings to support the structure of the business and the increasing investment in Homes & Property. In addition the Group maintains a range of bank facilities which were reduced following the private placement from £75m to £50m. This represents £15m of overdraft facilities and £35m of committed revolving credit facilities, all on an unsecured basis.

The Group's liquid position is affected by seasonal, monthly and contract specific cycles, particularly in connection with the large contracts undertaken by Kier National. Cash, net of debt, at 30 June 2003 of £62.0m (2002: £46.4m) represents a higher than average month-end balance and, as well as advance payments in respect of Whitehall, includes £25.1m (2002: £24.9m) of cash which is not generally available for Group purposes including that held by joint arrangements, overseas and by the captive insurance company.

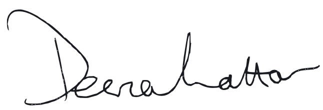
There are minor foreign currency risks arising from operations. The Group has a number of overseas branches and subsidiaries operating in several countries and currencies. Currency exposure to overseas assets is hedged through intercompany balances and borrowings such that assets denominated in foreign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

Pensions

The Accounting Standards Board has published an Exposure Draft of an amendment to FRS 17 'Retirement Benefits' deferring the mandatory requirement of its full adoption. It intends to adopt a UK standard based on the proposals of the International Accounting Standards Board. The financial statements reflect the transitional provisions of FRS 17. The pension charge has been calculated in accordance with SSAP 24 and, as in previous years, it corresponds to the contributions paid by the Group during the year.

Under FRS 17 calculations there is a net deficit of £79.7m (2002: £46.3m) caused by falling asset values, but more significantly, falling interest rates. An estimate of the impact interest rates have on the future liabilities of the fund is that for each 1% increase in long-term interest rates the deficit in the fund reduces by £65m.

The Group continues to review its strategy for providing pension benefits to all of its employees and a number of measures have been taken to reduce long-term liabilities: the final salary section of the Kier Group Pensions Scheme was closed to new members on 1 January 2002 and a defined contribution arrangement is now offered, employer's contributions have increased by 1% of payroll (£2.0m), employees' contributions are increasing by 1% and changes have been made to early retirement terms. An analysis of anticipated contributions, income receipts and benefits indicates that the scheme is likely to experience positive cash flows for the next nine years.



Deena Mattar
Finance Director

Kier Regional

Mid-range construction projects delivered by locally managed business units across the UK

Turnover up 8.6% to

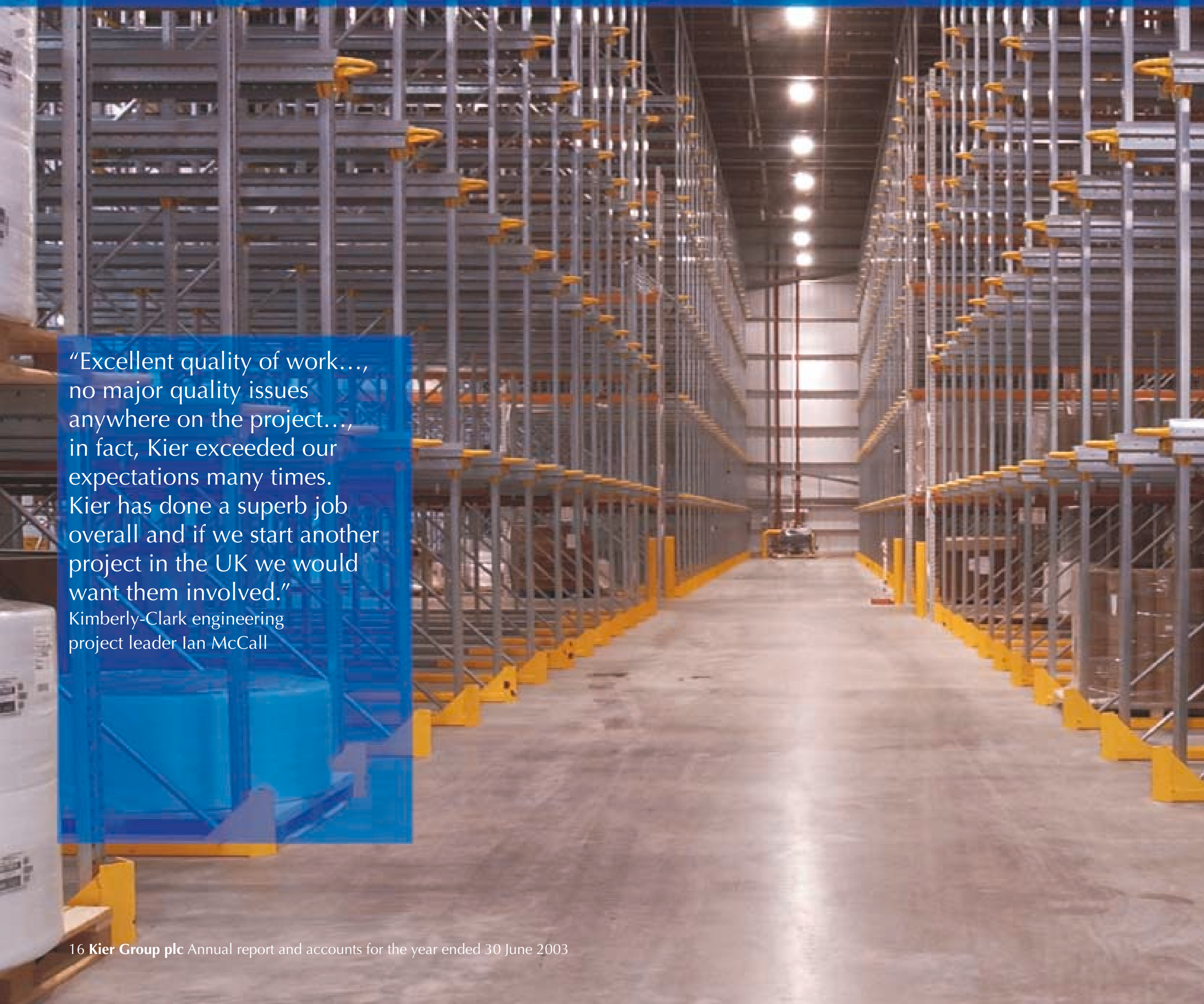
£787.6m

Performance

- Strong operating margin - exceeding expectations
- Record year-end cash balance of £154m
- Public sector workload up 3% - now accounts for 31% of turnover
- Kier Partnership Homes business acquired to focus on social housing market
- Government targeted expenditure on health and education reflected in this year's growth in awards - up 30% to £180m
- Negotiated works remain stable at 42% of awards
- Successful retail partnerships continue to grow - turnover up 3% to £146m
- Public sector framework and partnership arrangements established, including ProCure 21, complementing long-standing private sector relationships
- Occupational Health and Safety Management Standard OHSAS 18001: 1999 achieved

The future

- Identify opportunities to further expand and strengthen the Regional network
- Support and respond to national and local government 'best value' initiatives with particular emphasis on health and education



"Excellent quality of work…, no major quality issues anywhere on the project…, in fact, Kier exceeded our expectations many times. Kier has done a superb job overall and if we start another project in the UK we would want them involved."
Kimberly-Clark engineering project leader Ian McCall

- Continue to focus on customer satisfaction through the introduction of business-wide benchmarked key performance indicators
- Maintain emphasis on staff development, succession planning and training at all levels
- Introduce waste reduction strategy and work towards formal accreditation to Environmental Standard ISO 14001
- Kier Partnership Homes to achieve an appropriate level of return from the affordable housing market

Case Study: New production facility for Kimberly-Clark

The challenge for project manager Peter Collins and his team was to design and build a world class facility to house new production equipment being developed in the US. Despite tight schedules, ongoing project development, integrating UK and US cultures, and building within a 'live' environment, the project was delivered on time and to budget.

Peter is particularly proud of the labour force's safety performance, commenting: "Over 1,300 safety inductions were carried out and despite there being up to 200 operatives on site at any one time, there were no reportable incidents. This was achieved within prolonged periods of working 24 hours seven days a week."

The project won a Considerate Constructors Bronze Award and recognition of its high standards of safety and cleanliness and its minimal impact in terms of the environment and the client's production levels.

Client:	**Kimberly-Clark**
Location:	**Lincolnshire**
Description:	**Production facility**
Company:	**Kier Northern**
Value:	**£9.0m**

(clockwise from the left) site manager & planner Alistair Gill, general foreman Mick Moran, building services manager Steve Ball, contracts manager Mike Smurthwaite, project manager Peter Collins and site engineer Rashel Akers

Kier Regional

During the year, Kier Regional has successfully completed projects across a wide range of market sectors and continues to play a significant role in the success of the Group.

The UK network of regional construction businesses offers an unrivalled presence throughout the UK. It is through its well established regional business links that Kier is able to get closer to the communities which it serves. This in turn delivers greater local knowledge, a better understanding of clients' needs and a more competitive edge.

As part of a wider network, any business within Kier Regional is able to call upon the technical expertise and resources of its sister companies, and all other parts of the Group, enabling the sharing of best practice and the development of continuous improvement.

ABOVE Holiday accommodation Sinah Warren, Hayling Island for Bourne Holidays Ltd. Henry Jones. 6

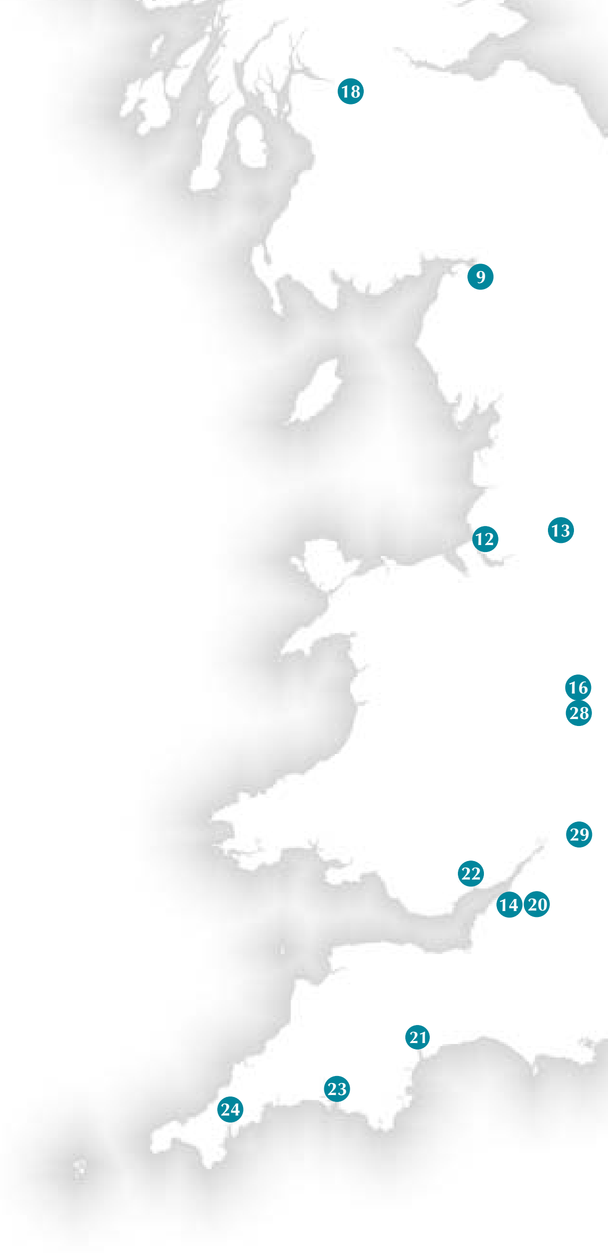
ABOVE Building 601, Birchwood Park, Warrington, Cheshire for Birchwood Park Estates. Kier North West. 12 13

ABOVE Hilliers Arboretum visitor centre, Romsey, for Hampshire County Council. Brazier Construction. 2

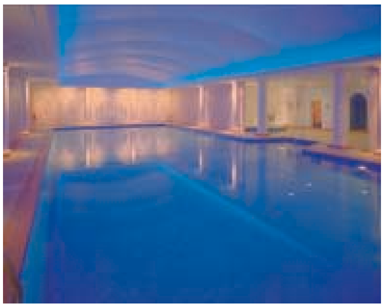
ABOVE Dykebar Hospital for Renfrewshire & Inverclyde Primary Care NHS Trust, Paisley. Kier Scotland. 18

ABOVE New science block for Eastbourne College. Longley. 25

LEFT Design and installation of M&E works at new offices for Harley Davidson, Oxford Business Park. IEI Building Services Engineers. 7



Glasgow • Carlisle • Durham • Leeds • Manchester • Liverpool • Nottingham • Walsall • Wisbech
Norwich • Birmingham • Rushden • Sandy • Witham • Cheltenham • Newport • Loughton • Maple Cross • Bristol
Newbury • Maidstone • Bromley • Basingstoke • Dorking • Crawley • Southampton • Havant • Exeter • Plymouth • Truro



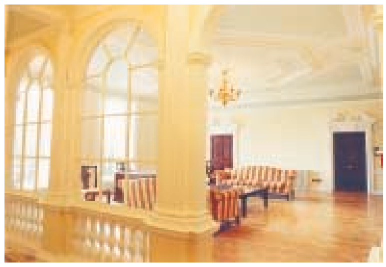
ABOVE New leisure facilities, Staines for Foxlea Investments Ltd. Kier Southern. 19

ABOVE Social housing at Elvetham Heath, Fleet. Kier Partnership Homes. 14 15 16 17

ABOVE New Hangar for Signature Flight Support, London Luton Airport. Marriott Construction. 26 27

ABOVE Princes Mead Shopping Centre, Farnborough for Key Property Investments (St. Modwin). Moss Construction. 28 29 30

ABOVE RAF dental surgery, Lakenheath, Suffolk. Kier Eastern. 3 4 5



ABOVE Internal fit-out of house and flats, Inverforth House, London for Frogmore Developments. Wallis. 31 32

ABOVE New manufacturing facility, Barton on Humber, Lincolnshire for Kimberly-Clark. Kier Northern. 9 10 11

ABOVE New slipway for Ponsharden Marina. Kier Western. 20 21 22 23 24

ABOVE Luxury residential scheme in Mayfair for a private client. Kier London. 8

Kier National

Major building, civil engineering & mining projects and plant hire in the UK and overseas.

Performance

- Overseas operating profit of £7.8m
- 95% of awards negotiated or partnered
- Merger of Kier Construction and Kier International complete as part of programme to restructure the business

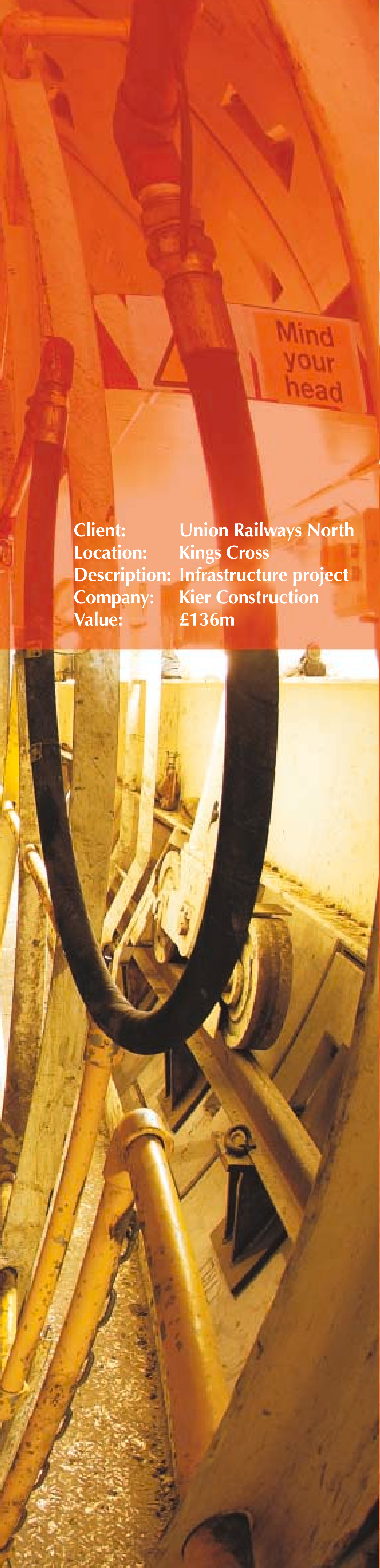
The future

- Focus on quality, performance and the containment of risk
- Improve safety performance and awareness
- Invest in training and staff development

Turnover down 18.8% to

£334.9m

"This project is unique in that it is constrained by private and public infrastructure, all of which needs to be treated with due care and attention. The KNJV has ensured that the works have been executed within these constraints on schedule, with an acceptable level of quality and the highest safety standards. This is a testament to their commitment to achieve the client's overall goals and ensure the successful completion of the entire CTRL project."
RLE contract manager Alan O'Dowd



Client: Union Railways North
Location: Kings Cross
Description: Infrastructure project
Company: Kier Construction
Value: £136m

Case Study: Channel Tunnel Rail Link (CTRL) contract 103

CTRL contract 103 is a joint venture between Kier Construction and Edmund Nuttall (KNJV), to bring the UK's first high speed railway line into London's St. Pancras.

This highly complex infrastructure project embraces almost all aspects of civil engineering and comprises 33 structures, including bridges, retaining walls, three large steel overbridges launched over working railways, three viaducts, two bored railway tunnels and a railhead. An accomplishment for any team, but especially one working in a confined city centre site. One of the key elements of this project is the construction of a temporary railhead for the removal of excess spoil from the 103 site and other CTRL projects in the area. This has significantly reduced construction traffic on local roads, congestion and pollution.

Due to the close proximity of working railway lines to the site, health and safety has been of paramount importance. Rigorous planning, constant perseverance and effort with regard to site safety has led to 500,000 accident free man-hours.

Enhancing the safety ethos on site was the introduction of the Fast Track to Success Initiative, which provides free training programmes to all operatives, assisting them in obtaining CSCS accreditation.

The team's proactivity within the local area has seen the project involved with many events including a mural competition for local schools, the winning designs enlarged and mounted on site hoarding boards, and the naming ceremony of a tunnel boring machine by nursing staff from the nearby St. Pancras Hospital.

(l-r) senior site agent Paul Heslop, site engineer Michael Grace, sub-agent Mark Austin and section engineer Mimi El-Sanhouri

Kier National

ABOVE No 1 Colmore Square, a major commercial development in Birmingham City Centre. Kier Build.

Kier Build

Major building projects

Kier Build had a difficult year largely attributable to two projects: the headquarters for TAG McLaren in Woking and a retail development in Bournemouth, both nearing completion. A stronger focus on risk reduction and on negotiated and partnered work has resulted in a programme of downsizing the business.

Three major projects were successfully completed during the year: Project Time, an office development at Hatfield for Arlington Securities; a PFI hospital project in Reading for West Berkshire Primary Care Services NHS Trust, and the reconstruction of Mons Barracks, Aldershot for Defence Estates.

The prestigious new headquarters for TAG McLaren, a new office and manufacturing facility for Matra BAE Dymanics at Stevenage and the demanding major retail development in Bournemouth for Castlemore Securities are nearing physical completion. An office development in the heart of Birmingham for Richardson Barberry and a commercial scheme in Whitehall for Kier Ventures continue to make good progress.

Two further negotiated contracts were secured for Castlemore Securities: a major retail development at Beckton and an infrastructure project at Purfleet.

Having achieved 'Investor in People' status at the end of 2001, Kier Build has invested significant resources in further developing its workforce and is committed to a process of continuous improvement.

Kier Construction

Civil engineering, mining and building projects in the UK and overseas

In March 2003, the operations of Kier Construction (UK civil engineering and mining) were merged with those of Kier International (civil engineering and building overseas) under one management team. Over the last two years significant strides have been taken to harmonise the operations of the two businesses and to reduce risk exposure by being selective in the type of contracts these companies are prepared to enter into. Both businesses cover the same work sectors and there are significant operational benefits to be gained through this merger.

UK operations

Good progress has been made on all projects during the year. Focusing on quality, performance and the containment of risk, the company has been highly selective in securing new work.

The framework agreement with United Utilities has grown substantially over the year and work is now under way or complete on 53 sites in the north west of England. Through a joint approach to the management of quality, environmental issues and health & safety, BSI accreditation to the integrated management standard is being sought on this project. The company is working with Southern Water to develop its strategy and business plan for Asset Management Programme 4.

Operations on two major contracts on the Channel Tunnel Rail Link, now in their third year, are running well. Tunnel boring on contract 250 is well under way and both drives are approaching the half way mark. On contract 103 at Kings Cross, new rail bridges across the Midland Mainline were installed during possessions last Christmas and similar activities over the East Coast Mainline are expected this year. Tunnel boring for the new Thameslink 2000 tunnels is about to start.

ABOVE Contract 404 Mei Foo Station, a Kier-Zen Pacific joint venture in Hong Kong. Kier Construction.

ABOVE A Kier Plant crane working at Whitehall Place for Kier Build.

A major infrastructure project for Conoco Philips at Immingham was successfully concluded - the tenth major CCGT power station completed by Kier in the last 10 years. The nuclear and defence sectors have remained active and further target cost partnering projects have been secured with Devonport Management Limited and for AWE at Aldermaston. The Mining division has now completed its last contract coal mining operation for Scottish Coal at Gasswater.

International operations

The company's strategy to secure negotiated opportunities with key clients and to avoid competitive tendering in local overseas markets is now in its third year and has resulted in further strong performance from this part of the business. There is a significant volume of ongoing work stretching into 2005 and many good opportunities.

In Hong Kong, work on two major railway stations for the Kowloon Canton Railway Corporation is approaching a successful conclusion. Kier has received commendations and awards from the client in recognition of its environmental and safety performance.

In Romania, the joint venture with Mivan for water supply and social housing continues to perform well and is expected to contribute strongly next year. The current phase of the contract to extract phosphates for the Jordan Phosphate Mining Company is almost finished with extensions under discussion.

Work in the Caribbean and the Americas remains strong. The long-term alliance with Alcoa, in joint venture with CCC Group Inc of Texas, forms the backbone of operations in the region and significant new awards this year will see the relationship continuing well into the future. This enables the company to selectively identify and pursue other opportunities in the area which have this year included projects for Pricesmart in Jamaica and for Conoco in Ponca City in the USA.

Kier Plant

Kier Plant has performed very strongly this year. Further investment in a range of equipment from telehandlers to office accommodation has been made and there are now 90 tower cranes in the fleet. Market demand is strong and prospects for next year remain good. The company ensures that an exemplary safety culture is exhibited by every employee during all plant operations. This, together with Kier Plant's commitment to the quality and safety of its equipment fleet, will continue to take top priority.

We are focused on quality, performance and the containment of risk

Kier Support Services

Outsourcing of managed services, including FM services for PFI and PPP projects, and building maintenance for commercial clients, local authorities and other social landlords.

Turnover up 42.6% to

£115.4m

Company: Kier Sheffield LLP
Project: Building maintenance outsourcing
Value: £640m
Duration: 10 years

Case Study: Construction and Building Services operation of Sheffield City Council

Kier Sheffield is a limited liability partnership (LLP) between Sheffield City Council and Kier. Kier Sheffield was awarded the £640m, 10-year outsourcing of Sheffield City Council's buildings maintenance in March 2003.

The partnership is responsible for maintaining 60,000 council properties and 1,100 other public buildings, including 550 schools, and can also bid for private sector construction work. Work is carried out by 1,200 former council employees who transferred to the new partnership.

Implementation director Lawrie Weaver commented: "Six months into the contract, the benefits of outsourcing are clearly evident. Through a more customer-focused approach, the team is delivering better value for money, increased efficiency and better workflow management through the use of information technology.

Employee training and development is given top priority and staff morale is high. As a supporter of the Sheffield Apprenticeship Scheme, Kier Sheffield offers teenagers from the local community career opportunities and work experience.

The entire workforce is trained in customer care and follows Kier Sheffield's customer service charter. Through this approach, Kier Sheffield has set and is maintaining new standards of commitment and professionalism."

Sheltered workshop manager Chris Dooley (left) and implementation director Lawrie Weaver

Kier Support Services

"The potential market for local government building maintenance contracts under the Government's 'best value' programme is significant and, with our current portfolio of such contracts, we believe we are the market leader in this type of work..."

Overview

The Support Services division continues to grow. Turnover is up 42.6% on the previous year to £115.4m, which includes the first three months of trading on the £640m partnership with Sheffield City Council.

The division's aims and objective are to:

- develop the business through two distinct business streams:
  - Managed Services - FM, PFI, consulting, environmental management and cleaning
  - Building Maintenance - public sector reactive and planned maintenance
- grow turnover to £200m in the medium term; and
- increase profitability through further integration and the adoption of best practice.

Building Maintenance

The Building Maintenance division saw a sharp rise in its order book when it closed a £640m, 10-year deal with Sheffield City Council to provide maintenance for some 60,000 council homes and municipal buildings throughout Sheffield.

In London the Group's 10-year joint venture with the London Borough of Islington achieved further success when it won the Learning Skills Council's 2003 award for innovation for its First Start Scheme.

Managed Services

PFI service provision

Under the Private Finance Initiative, Kier continues to bid selectively, having won a further three FM projects and is preferred bidder on three more.

The emphasis is still on growing the portfolio of mainly healthcare and education schemes. The 240-bed Neath Port Talbot District General Hospital in South Wales is now operational and contracts at Greenwich Care Homes, Harrow Schools and Copeland offices have been closed. Preferred bidder status has been achieved for Hinchingbrooke's Diagnosis and Treatment Centre and for schools projects at Waltham and the London Borough of Bexley.

Facilities Management

Client retention and sustained growth in both public and private sectors are the main aims of the FM division. Existing key contracts have been retained with Legal & General, the University of Glamorgan and the London Borough of Bexley.

New contracts have been awarded for clients in both the public service and manufacturing sectors and include the Home Office, DEFRA, the Environment Agency and IBC Vehicles.

ABOVE Caxton Islington's third annual fun day. Over 1,500 tenants attended the Ashburton Grove Depot to enjoy a day of family fun.
RIGHT Call centre at Kier Sheffield

Consulting

The importance of balancing work and home life is regularly highlighted by the media. Caxton has been working with the Department of Trade and Industry for several years and is recognised by them as a leading consultancy in work life balance.

Caxton was accredited to undertake peer challenge comprehensive performance assessment (CPA) reviews as part of the Government's push for performance review of local government - one of only four organisations to achieve this.

As well as the above Consulting has provided expertise on business process re-engineering and will continue to build on these areas of expertise to ensure it is well placed to respond to new opportunities.

A-Z of clients

Abbey
BAE Systems
Coca Cola & Schweppes
DEFRA
Eurofighter International
Fujisawa
Grosvenor Waterside
Health & Safety Executive
Islington Borough Council
Jones Lang LaSalle
King Sturge
Legal & General
Magistrates' Courts Brent
Nelson Bakewell
Pricewaterhouse Coopers
Royal and Sun Alliance
Superdrug
Thomas Cook
University of Glamorgan
Vauxhall Motors
Welsh Institute of Sport
Zurich Insurance

A-Z of services

Asbestos management
Building maintenance
Cleaning
Disposal of waste
Environmental advice
Fire prevention advice
Grave digging
Health assessment
IT consultancy
Janitorial services
Kitchens and catering
Laundry
Maintenance
Nursing
Outsourcing
Pest control
Quality control
Recycling
Street cleaning
Troubleshooting
Urban regeneration
Valeting
Window cleaning
X-ray equipment maintenance
Yellow bag clinical waste disposal
Zebra crossing road markings

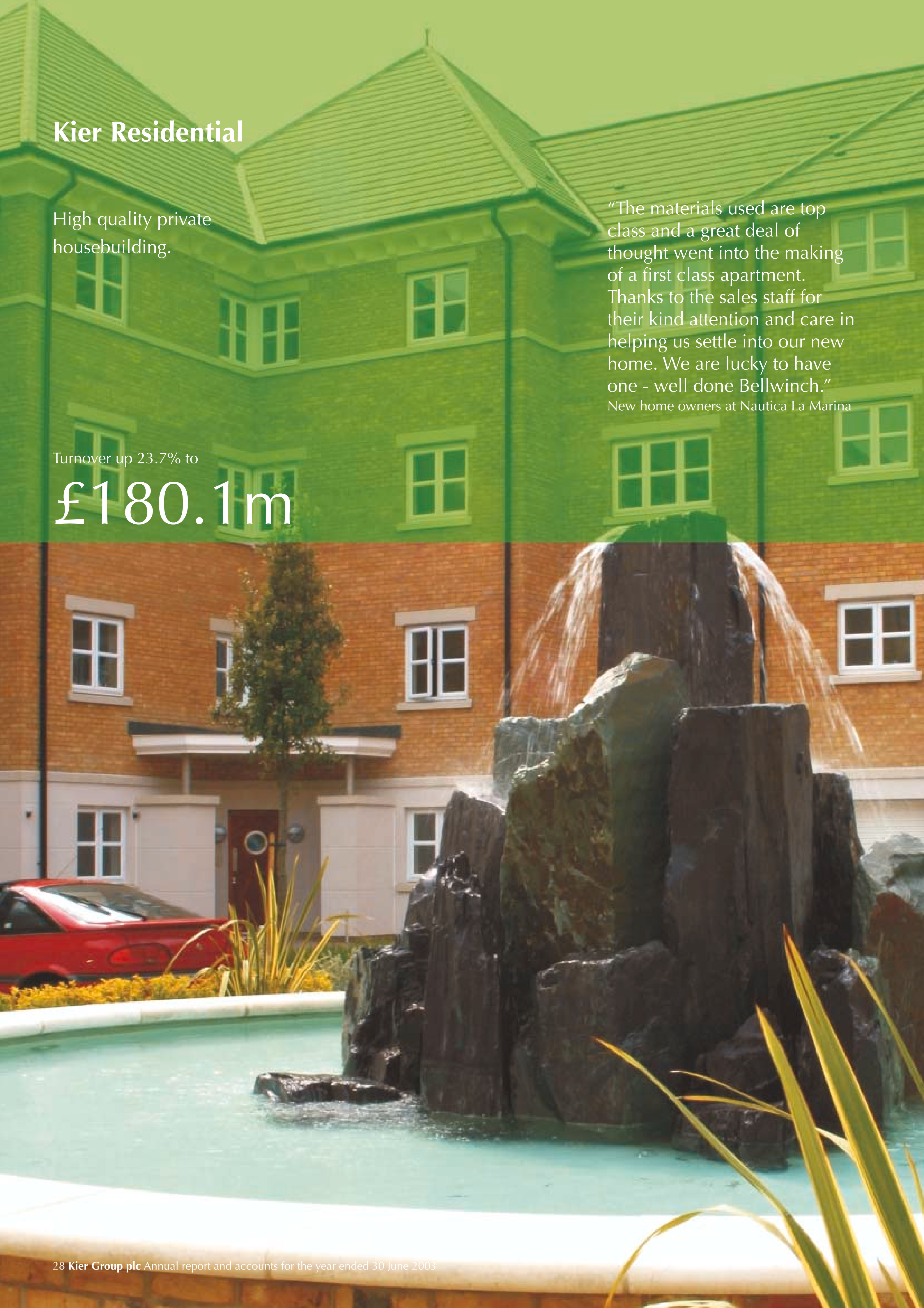
Kier Residential

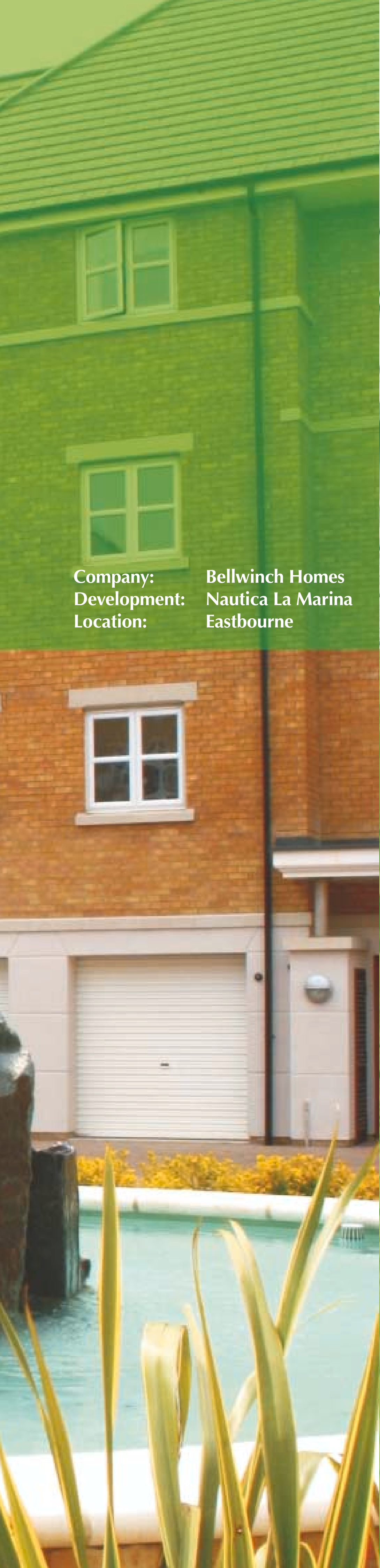
High quality private housebuilding.

"The materials used are top class and a great deal of thought went into the making of a first class apartment. Thanks to the sales staff for their kind attention and care in helping us settle into our new home. We are lucky to have one - well done Bellwinch."
New home owners at Nautica La Marina

Turnover up 23.7% to

£180.1m





Company: Bellwinch Homes
Development: Nautica La Marina
Location: Eastbourne

Case Study: Nautica La Marina

Just 50 yards from the seafront, Bellwinch Homes' flagship 'Nautica La Marina' development at Sovereign Harbour in Eastbourne affords stunning sea views and has proved an outstanding success. The development comprises 145 luxury apartments, three-storey town houses and four-bedroom detached homes including a variety of styles for each.

Construction began in June 2001 and the development, which carries a nautical theme, is due to finish by Christmas 2003. Most of the houses and apartments are now sold and occupants are enjoying the luxury of these new seaside homes which include Jacuzzi baths and steam cabinets.

Project manager Darren Dockerill commented: "Apart from the excellent design and specification of the development, also key to its success was disciplined programming, effective communication, strict quality control and the high level of health & safety standards achieved."

Darren exercised considerable energy and enthusiasm throughout the project and his motivation of the site team and positive attitude earned him the title 'Company Site Manager of the Year' and a company health & safety award. Darren has also been shortlisted for the CIOB's Construction Manager of the Year.

The site won an NHBC Seal of Excellence Award last year and this year has received an NHBC Quality Award.

(l-r) senior sales negotiators Avril Bedrich and Marie Yates, project manager Darren Dockerill and senior site manager Chris Jones

Kier Residential

ABOVE An Asquith. Allison Homes

ABOVE Interior of a Bellwinch Home

Overview

Kier Residential has provided another year of sustained growth with a 23.7% increase in turnover and volumes increasing by 12.9% to 990 units from 877 last year. Average selling prices increased by 9.5% from £166,100 to £181,900 and operating profit is 28.9% up on 2002 at £26.3m.

The results include a full 12-month contribution from Allison Homes. Since its acquisition in September 2001 the company has exceeded acquisition forecasts and has integrated into the division well.

Bellwinch Homes has successfully delivered its planned change in housing mix with a deliberate move away from the 'top end' sales price homes and has increased the volume of smaller properties in its operational area of the south and south east.

Kier Homes is now operating in both the west and east central belt of Scotland and has, through land acquired in the twelve months to June 2002, increased volumes and made a strong contribution to pre-tax profit. This business is still growing and further investment is planned.

Twigden Homes has again delivered a good performance supported by increased average sales prices in its core area of operation. Further outlets are planned and volumes are expected to grow further into 2004.

There has been much debate on the condition of the UK housing market. Sustained low interest rates, low inflation, consumer confidence and the easing of the rate of house price inflation to normal yed. levels should ensure that a good market, in terms of volume, continues to be enjoyed. Continued consolidation within our industry should also benefit the business. The year to June 2004 has started with good levels of interest and total sales at 31 August 2003 are 11% ahead of last year.

The operating companies are commencing work on new sales outlets and an additional 15 developments, in total, will trade in 2004 compared with 2003.

Land activity

The key raw material for residential businesses is good land in quality locations. While the land market remains very competitive, a further £57m has nevertheless been invested in land with planning permission and the land-bank of 3,700 plots provides for 3.7 years' forward trading.

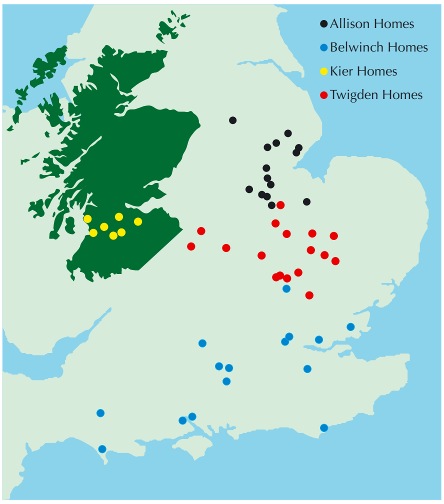
Planning difficulties continue to delay the process of taking land into production and further investment in 2004 will maintain the land-bank at between 3.5 and 4 years.

Strategic land

Some 12,000 plots of strategic land are currently controlled by the division and continue to be promoted through the planning system. During the year significant success has been made with the achievement of planning permission on

ABOVE Drumkinnon Gate, Balloch. Kier Homes

ABOVE The Grange, Bushby. Twigden Homes



two sites in Bedfordshire providing 207 plots. In consortium with three other developers, the company has also achieved an allocation for a Major Development Area in respect of 3,000 houses, 26 acres of employment land and associated educational and community uses in Aylesbury, Buckinghamshire. Planning consent is anticipated during 2004; Kier Residential's share of this development is 14%.

The strategic land team has also increased its portfolio in the year by taking an option on 142 acres in Winchester. The company is actively promoting existing interests in strategic land and pursuing further opportunities in the growth areas recently announced by the Government, all of which fall within Kier Residential's core areas of operation.

Significant achievement

Kier Residential's four operating brands have continued to develop the quality, presentation and added value of their developments and product.

In Allison Homes the development at Bourne, near Peterborough, which will eventually comprise over 2,500 homes together with schools and community facilities, is now well established and proving successful. New developments are also coming on stream in the north of Lincolnshire where good interest is being established.

The Bellwinch business has established a real flair for the innovative design of apartments and its Sovereign Harbour, Eastbourne scheme is continuing to be in demand. Bellwinch has also continued to further enhance the quality of its traditional homes.

Kier Homes opened two outlets on a new flagship scheme in Hamilton near Glasgow, which enjoys commanding views across the Clyde Valley, and is proving successful. The company's scheme in the east central belt at Livingston establishes the business in a new market area.

Twigden Homes has continued to successfully develop its scheme in Royston, Hertfordshire which is expected to comprise over 500 homes. In the year to June 2003, 72 sales were achieved from this development.

People and achievements

It is the commitment, dedication and enthusiasm of the employees which delivers and drives growth.

The company recognises health & safety, product quality and the development of all skills to be fundamental to its future success.

Kier Residential currently enjoys a safety record 50% better than the HSE industry benchmark. This achievement is a credit to its teams and demonstrates a commitment to the safety and welfare of staff, contractors and customers.

During the year all four operating companies achieved the highest awards in health & safety terms, recognised by the Royal Society for the Prevention of Accidents and the British Safety Council.

The quality of Kier Residential's product and people has been recognised with the award of four NHBC Pride in the Job awards and one project manager is currently a finalist in the CIOB awards to be decided later this year.

Environmental issues are also key and Greenleaf awards have been achieved for three developments.

Kier Residential is also committed to maintaining its training at all levels. A modern apprentice scheme now provides for 27 trainees in key skills which the company will continue to expand throughout the coming year. In addition, a graduate trainee programme for construction management has been implemented in order to further sustain the business.

Kier Property

Commercial property development.

"Kier is to be congratulated for its excellent work that recognises the high priority given to the sustainability agenda in DEFRA. I look forward to the successful implementation which will set high standards in terms of the construction process and the ongoing use of the building."
John Tempest
Project sponsor for DEFRA

End value of assets under management

£520m

Developer: Kier Property
Location: Whitehall Place, London SW1
Tenant: DEFRA
Contractor: Kier Build
FM provider: Caxton FM

Case Study: Whitehall Place

Kier Property purchased its Whitehall Place scheme from the Crown Estate to develop as a new headquarters building for the Department for Environment, Food and Rural Affairs (DEFRA). The development is on the site of the original Scotland Yard and is pre-let on a 25-year lease.

Listed building consent and planning approval were obtained last autumn, enabling Kier Build to start design and construction of the new ten storey, 125,000sq ft office building. The complex demolition phase included the retention of the Grade II listed Portland stone façade prior to 1,000 tonnes of steelwork being delivered for the new structural frame.

Roger Duncombe, managing the development for Kier Property, is overseeing the interaction of the various Kier project teams with DEFRA, the Crown Estate and the new investors.

"For me this project is both challenging and unique. Sustainability is top of the agenda for DEFRA and Whitehall Place is a key component in DEFRA's drive for sustainable developments. Although the idea is simple, the task is substantial given the location and constraints of the project, but real progress is being made by the team to achieve DEFRA's objectives"

"We are on target for completion in the autumn of 2004, after which Kier will provide the entire facilities management service for DEFRA through Caxton Facilities Management."

Kier Build project manager Louisa Finlay and Kier Property senior project manager Roger Duncombe

Kier Property

Overview

Building on the success of the joint venture established last year with the Bank of Scotland (Kier Developments), the business has continued to grow at a healthy pace. The focus has been to maximise the development opportunities within the existing portfolio while expanding the division through new opportunities. Despite the challenging market conditions, profit expectations were exceeded in 2003.

ABOVE Artist's impression of Palacexchange, Enfield

ABOVE Artist's impression of AMS House, Frimley

Kier Developments

Enfield Retail, a scheme pre-funded with ING, has made good progress during the year. The £50m town centre scheme includes 22 retail units, a civic facility, commercial leisure facilities and 550 car parking spaces. This is now one of the last major town centre retail opportunities in north London, significantly enhancing the retail facilities and amenities for the local community. Two major national retailers are about to exchange contracts as anchor tenants. A number of other major national retailers are now actively discussing the scheme, lettings of over half the retail space have already been agreed. Construction is due to start in 2004.

Near Heathrow, an exciting opportunity has been secured by the signing of a development agreement with the London Borough of Hounslow to create over 310,000sq ft of distribution space and to redevelop one of the country's leading wholesale fruit, vegetable and flower markets. The scheme will protect over 1,000 jobs and raise the environmental standards of the market to one of the most modern in Europe. A detailed planning application will be submitted shortly.

Having secured a major pre-let for over 100,000sq ft of new office space for AMS (a subsidiary of BAE Systems), work has now begun on site. The headquarters building will be completed in spring 2005, as part of Kier Developments' overall development plans in the area for 480,000sq ft of new campus-style accommodation. This deal strengthens Kier Property's growing commercial portfolio of office developments.

Bicester Park continues to attract occupier interest. The national fresh food distributor, Fresh Direct has acquired the freehold for a 27,000sq ft unit. The company already occupies 40,000sq ft on the Park and the new unit will provide a specialised cold storage area and a new product development centre. Already there is occupier interest for the final phase of the development.

At Cribbs Causeway in Bristol, Kier Developments has been working with local residents and the Council to obtain a residential planning permission for 73 houses. Originally purchased as an industrial scheme, support was provided by both the local council and the community to promote a residential scheme. The planning application received unanimous support and the site is likely to be sold later this year.

The acquisition, last year, of Laing's property portfolio, has provided the critical mass required to transform Kier Property into a major player in the property market.

ABOVE Artist's impression of Transcend's Aylesbury Scheme

ABOVE Waltham Point, a major distribution centre for Sainsbury

Transcend, a joint venture with Laing Investments, has been focusing on a number of railway related mixed-use schemes. At Aylesbury there is a proposal for 390 apartments close to the railway station and town centre. The scheme will regenerate a disused brownfield site and will provide new community facilities. The expertise behind Transcend and the development opportunities arising will enable the joint venture to grow and perform well in the market.

The Trade City scheme in Exeter has been a huge success. All of the business units are now either sold or under offer with a number of deals completed this year, including national builders merchants, W T Burden, and a number of local businesses. Offering flexible terms and bespoke units has proved to be a major attraction to occupiers who have all taken the opportunity to acquire the freehold of their units.

Kier Ventures

One of the highlights for Kier Ventures in the year to June 2003 was the commencement of the office redevelopment at Whitehall for the Department for Environment, Food and Rural Affairs (DEFRA) which has been pre-sold for more than £40m. This represented one of the major central London transactions of the year. The contractor is Kier Build, whose programme includes a pioneering sustainability charter.

Working together with Kier Regional, Kier Ventures has been selected as developer for The National Trust's 80,000sq ft headquarters office in Swindon. Moss Construction will be carrying out the construction. This will create a new working environment for over 400 of the National Trust's staff, bringing different departments under the same roof for the first time. A programme of sustainable and environmentally friendly targets will be built into the programme to enable the Trust to work in accordance with their working policies on green issues.

In East Anglia, two years of successful trading for Focus DIY at Haverhill has resulted in the company signing up to a further extension to its existing store. Focus now has over 35,000sq ft of retail space at the mixed-use scheme. Construction is due to complete at the end of 2003.

The year to June 2004 will see Kier Property continue to expand the business. 2003 saw a steady increase in the number of development opportunities being identified. Building on the division's track record and the team's expertise, the management is confident that it will be able to grow the division's profit and the portfolio over the coming year.

Kier Project Investment

Promotes and manages the Group's interests in the Private Finance Initiative, creating concession holding businesses in healthcare, education and other local services.

Committed investment

£13.8m

Client:	**Berkshire Healthcare NHS Trust**
Location:	**Prospect Park, Reading**
Description:	**203-bed mental health hospital**
Company:	**Kier Project Investment**
Turnover:	**£120m over 30 years**
Floor area:	**15,000sq m**

Case Study: Prospect Park Hospital

Kier Project Investment and Innisfree formed a special purpose company, Prospect Healthcare (Reading), to deliver this project through the Private Finance Initiative. It was the first major mental health PFI project in the country.

Close teamworking was vital to the success of the project and Kier Group's major building projects arm, Kier Build, was contracted to build the £25m facilities. The multi-disciplinary demands of PFI brought together architects, healthcare planners, facilities managers, builders, construction and operational project managers, investors, technical advisers and funders. Working in close collaboration ensured that the whole team developed a full and common understanding of the wider scope of the scheme during the development and construction phases.

Construction is now complete and the scheme has entered the 30-year operating phase.

The new Prospect Park Hospital provides care for the acute mentally ill, the elderly mentally infirm, intensive care and rehabilitation patients and those with learning disabilities, accommodating their privacy and dignity at a level never before achieved in the county.

(l-r) Trust project director Michael Trayford, Kier Build design co-ordinator Joanne McKay, ISS Mediclean operational manager Andrew Fraser and KPI project manager Duncan Macdonald

Kier Project Investment

ABOVE Bournemouth Library, now operational

Overview

Kier Project Investment (KPI) manages the Group's interests in PFI – projects procured under the Private Finance Initiative. It seeks to develop a portfolio of infrastructure project investments, yielding long-term income stream returns of around 15%, while maintaining a flow of negotiated construction and operational support services contracts for the Group's other operating divisions.

A strong track record in PFI schools and hospitals

The portfolio is varied and signed deals to date include two general hospitals, a mental health facility, care homes, schools and a public library. Kier generally has a 50% investment interest.

KPI continues to pursue new opportunities while playing an active role in the management and delivery of its existing projects. Four projects are now fully operational, two are in the construction phase, two are at the preferred bidder stage and the company is short-listed for two further schemes.

During the year, financial close was reached on Greenwich Care Homes and preferred bidder status was achieved on Hinchingbrooke Diagnosis and Treatment Centre, where financial close is expected shortly, and on Waltham Schools.

Current investments

Healthcare

Hairmyres Hospital in East Kilbride is performing well in its second year of operation and provides regular investment returns. In South Wales, the 250-bed Neath Port Talbot Hospital was completed ahead of programme and 27 years of operations began in November 2002. Caxton is providing non-clinical services for the period; Kier has a 25.5% stake. The

SECTOR	PROJECTS	OPERATIONAL	CONSTRUCTION PHASE	PREFERRED BIDDER	SHORT-LISTED
Health	Hairmyres Hospital	●			
	Neath Port Talbot Hospital	●			
	Prospect Park Hospital	●			
	Hinchingbrooke DTC			●	
Education	Tendring Schools	●	●		
	Waltham Schools			●	
	Sheffield Schools				●
Local Authority	Bournemouth Library	●			
	Oldham Library				●
Care Homes	Greenwich Care Homes		●		

ABOVE Current status of PFI projects

203-bed, £25m Prospect Park mental health hospital in Reading was completed by Kier Build and patients moved in during April 2003.

KPI was confirmed preferred bidder in December for a diagnosis and treatment centre at Hinchingbrooke, Cambridgeshire. These facilities will be built by Kier Regional and serviced by Caxton.

Local authorities

Bournemouth Library continues to operate successfully with Caxton as the service provider. The new building has attracted much attention for its innovative approach, architecture and quality of construction. It has been nominated for several awards, including the Prime Minister's Award for Better Public Building, and received a commendation from the Civic Trust.

Education

The Tendring Schools project in Essex continues to progress well. Main contractor Kier Eastern is constructing and refurbishing the schools and has completed ten of the twelve schools in this project. The two remaining schools currently await planning approval and construction will begin in the autumn.

Caxton is responsible for providing services to all twelve schools. In August 2003 KPI was confirmed preferred bidder on Waltham Schools which involves the construction of eight schools by Kier Regional under a £50m construction contract. Caxton will provide the services to the schools.

Care Homes

Kier London is building three new neighbourhood resource centres in a scheme for the London Borough of Greenwich which will provide care and nursing services for the elderly, the first of which is due for occupation next summer. The concession is the first in this sector to include the provision of nursing and care services and is one of the first where a housing association is an investor and provider of the care services. Caxton will be responsible for maintaining the completed buildings.

Future opportunities

The company has been short-listed for a multi-school project and a library and is pursuing other opportunities, mainly in the key sectors of healthcare and education.

We are bidding for several other projects focusing on our traditional areas of health, education, care homes and libraries

The principal feature of our business model is that it provides consistency in the delivery of profit.

Financial statements

Directors' report

The directors present their annual report and audited financial statements for the year ended 30 June 2003.

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

A review of the Group's business and progress is given within the Chairman's Statement, Chief Executive's Review, Financial Review and Review of Operations on pages 6 to 43.

Results and Dividends
The Group profit for the year after taxation was £23.8m (2002: £20.3m).

An interim dividend of 5.2p per share (2002: 4.5p) amounting to £1.8m (2002: £1.5m) was paid on 15 May 2003. The directors propose a final dividend of 11.2p per share (2002: 9.7p per share) amounting to £3.8m (2002: £3.3m) payable on 9 December 2003 to shareholders on the Register of Members at the close of business on 3 October 2003.

Share Capital
Details of shares allotted by the Company during the year appear in note 19 to the financial statements.

Directors
The directors of the Company during the year are shown on pages 4 and 5. Mr R W Side and Mr R W Simkin were appointed directors on 1 January 2003 and Mr R W Gregory was appointed a director on 1 July 2003. Mr M P W Scarth retired on 7 May 2003 and Mr D Homer retired on 30 June 2003.

At the forthcoming Annual General Meeting resolutions will be proposed for the election of Mr R W Gregory, Mr R W Side and Mr R W Simkin as directors of the Company and the re-election of Mr C R W Busby and Mr S W Leathes. At that date, the unexpired term of the contracts of employment with the Company of Messrs Busby, Gregory, Side and Simkin will be twelve months. Mr Leathes does not have a service contract.

Details of directors' interests are disclosed in the Directors' Remuneration Report on page 52.

Substantial Shareholdings
At 15 September 2003 the Company had been notified of the following interests in the Ordinary Share Capital of the Company:

Standard Life Investments Limited	6.2%
Legal & General plc	3.9%

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

Combined Code
A statement on corporate governance is set out on pages 47 to 48.

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

Donations
Group donations to charity in the United Kingdom were £41,000 (2002: £34,000). No political donations were made (2002: nil).

Policy on Payment of Creditors

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

Subsidiary trading companies within the Group, acting in accordance with the above policy, exhibit creditor days averaging 42 (2002: 41) in respect of suppliers of invoiced goods and services and 25 (2002: 20) in respect of certified amounts due to subcontractors. These figures exclude amounts not currently due for payment but included within trade creditors.

Auditors

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

By Order of the Board

D E Mattar
Secretary

16 September 2003
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Corporate governance statement

The Code

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

Board of Directors

The Board of Kier Group plc comprises six executive and three independent non-executive directors.

The roles of chairman and chief executive were held by one director until 1 May 2003 when, in order to meet the growing needs of the business, the roles were separated and Mr J Dodds was appointed Chief Executive. Mr C R W Busby remains as Chairman. The Board has a strong and independent non-executive element, including a recognised senior member, and a well established and experienced executive element. This, coupled with clear board procedures for decision making, ensures that there is no undue concentration of power in any one individual.

The senior independent director nominated by the Board for the purposes of Provision A.2.1 of the Combined Code is Mr P F Berry.

The Board meets monthly and has a formal schedule of matters specifically reserved to it for decision. The Board has responsibility for the strategic and financial policies of the Group including monitoring and reviewing business performance.

All directors have access to the advice and services of the Company Secretary and the directors are able to seek independent professional advice if necessary at the Company's expense. Training is available for new directors and subsequently as necessary. All directors are subject to election by shareholders at the first Annual General Meeting following their appointment, and to re-election thereafter at intervals of no more than three years.

Audit Committee

The Audit Committee comprises the three non-executive directors under the chairmanship of Mr S W Leathes. The Committee meets generally three times a year and will usually request the attendance of the Finance Director, the Head of Internal Audit and the external auditor. The Committee has clearly defined terms of reference which outline its objectives and responsibilities relating to financial reporting, internal controls, risk management and the application of appropriate accounting policies and procedures. Specific responsibilities include reviewing and recommending for approval the annual and interim financial statements, reviewing the Group's accounting policies, reviewing the effectiveness of internal controls and risk management and reviewing the scope and results of the external audit. This includes monitoring the independence and objectivity of the external auditor and agreeing the level of remuneration and the extent of non-audit services.

The Audit Committee approved the establishment of a Group internal audit function during the year and has responsibility for overseeing the function including approval of the annual risk-based audit plan and monitoring the work, recommendations and effectiveness of the function. The Head of Internal Audit reports directly to the Chairman of the Audit Committee. The Committee's terms of reference are reviewed annually and have been updated in line with the guidance and recommendations of the revised Combined Code.

Remuneration Committee

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

The Remuneration Committee makes recommendations to the Board on the Company's framework of executive remuneration and determines on its behalf specific remuneration packages for each of the executive directors. In doing so it takes the advice of independent external consultants.

Nomination Committee

The Nomination Committee comprises the Chairman and the non-executive directors. It is responsible for monitoring the composition and balance of the Board and making recommendations to the Board on new board appointments.

Internal Control

The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal control. This extends the directors' review to cover all controls; including operational, compliance and risk management, as well as financial controls. The directors are satisfied that procedures are in place to ensure that the Group complies with guidance published by the Institute of Chartered Accountants in England and Wales.

Corporate governance statement continued

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

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

- an established management structure operating throughout the Group with clearly defined levels of responsibility and delegation of authorities;
- clearly defined operating guidelines and procedures with authorisation limits set at appropriate levels. These are set out in the Group and divisional standing orders;
- a comprehensive budgeting and forecasting system in place which is regularly reviewed and updated;
- a formal quarterly review of each division's year-end forecast, business performance, risk and internal control matters is carried out by the directors of each division with the Chairman, Chief Executive and Finance Director in attendance;
- monthly management reporting including regular comparison of actual results against latest forecasts;
- established policies and procedures governing the Group's investment in land, property and other significant assets, including acquisitions and disposals. These include detailed appraisals, appropriate authorisation levels and Board approval depending on value or perceived exposure;
- investment decisions, including Private Finance Initiative projects and tenders for contracts, are subject to approval by the Board, the Chief Executive and Finance Director or divisional directors depending on the value and nature of the investment or contract. Individual tender and project review procedures are in place prior to bidding and before contract award;
- since the establishment of the Group's internal audit function, internal audits are carried out to assess the adequacy and effectiveness of internal controls. The scope of the internal audit work is planned to cover the key risks faced by the business but will be supplemented by cyclical reviews of the core financial process. Internal audit findings are reported to the Audit Committee and the executive directors on a regular basis;
- an annual process of control self assessment is used in the Group whereby all operating companies are required to review and confirm that appropriate internal controls are in place across a number of risk areas and that they are operating effectively. This assessment was carried out on 31 March 2003 and the findings reviewed by the Audit Committee; and
- regular monitoring, review and reporting of health, safety and environmental matters.

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

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

Relations with Shareholders

The Board uses the Annual General Meeting to communicate with shareholders and encourages their attendance and participation in the Annual General Meeting. The chairmen of the Audit Committee and the Remuneration Committee are available to answer questions from shareholders. The Group also maintains a regular dialogue with institutional investors to assist in the understanding of the Group's objectives. The Kier website (www.kier.co.uk) is also maintained to aid communication with investors, employees, customers, suppliers and the general public.

Directors' remuneration report

The Remuneration Committee

The Remuneration Committee is a board committee consisting entirely of independent non-executive directors. The following directors were members of the Committee for the year ended 30 June 2003:

P F Berry (Chairman)
S W Leathes
P T Warry

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

The Committee meets when necessary, but not less than once a year. The Committee consults the Group Chairman concerning its proposals (except in relation to the Chairman's own remuneration) and has access to and, from time to time, takes external professional advice. In respect of the year ended 30 June 2003 the Committee appointed New Bridge Street Consultants, its independent remuneration advisors. New Bridge Street Consultants provide no other service to the Company. Where necessary, or appropriate, the Committee instigates consultation with major institutional shareholders on remuneration matters.

Remuneration Policy

The Committee makes recommendations to the Board on executive remuneration policy for adoption by the Board and determines specific remuneration packages for each of the executive directors on behalf of the Board. Remuneration and benefits are set at market levels comparable with companies of similar size and scope of activity in order to be able to attract, retain and motivate high calibre individuals. The Committee's policy is to maintain an appropriate balance between fixed elements of remuneration (basic salary, benefits in kind and pension) and performance-related elements (annual bonus and long-term incentives) and to place much greater emphasis on rewarding executives by reference to the Group's long-term performance rather than its short-term results. The Committee and Board encourage directors and staff at all levels to acquire shares in the Company and to hold them for the longer term. This sense of ownership is an important element of Kier's culture and of its focus on long-term performance. As far as possible the Group prefers to promote individuals from within. The remuneration received by each of the directors, together with details of share interests, are set out on pages 51 to 53. Details of pension benefits are set out on page 51.

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

Basic salary	Salaries for executive directors take account of external market data, the individual's responsibilities, experience and performance. Salaries are reviewed annually.
Benefits in kind	Benefits in kind comprise membership of private health insurance, provision of a fuel card and the provision of a company car or a car allowance.
Annual bonus arrangements	A bonus is paid to all executive directors at a percentage of annualised basic salary (not exceeding 10% for the year ended 30 June 2003) if Group pre-tax profit attains a target pre-set each year. This target is agreed by the Committee; it is not published externally for reasons of commercial confidentiality.
Retirement benefits	Executive directors participate in the Kier Group Pension Scheme which is a defined benefit scheme based on final salary. In cases where the executive directors' pensionable pay is limited by the earnings cap provisions of the Finance Act 1989 the Group either operates a funded unapproved retirement benefit scheme (FURBS) or pays the director a salary supplement above the earnings cap to reflect the loss of pension coverage. This supplement is recorded in the directors' remuneration and is not taken into account in determining bonuses or any other form of remuneration. Details of individual directors' pension arrangements are shown in a separate table on page 51.
Long-term incentives	The Kier Group 1999 LTIP was approved by shareholders on 27 November 1999 and the first set of conditional awards was granted on 22 December 1999 (the 2000 award), a second set on 2 October 2000 (the 2001 award), a third on 2 October 2001 (the 2002 award) and a fourth on 1 October 2002 (the 2003 award). The awards are subject to the Group achieving the following adjusted earnings per share growth targets:

- the directors will receive 100% of the award if earnings per share increase by at least 25% per annum compound (the maximum target) over a single three year period;
- no awards will vest unless earnings per share over the same period have increased by at least 7.5% per annum compound (the base target) at which point 25% of the award will vest; and

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

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

28.2% of directors' remuneration for the year to 30 June 2003 was represented by the award under the LTIP.

It is the Committee's current intention to also apply these same earnings per share growth targets to any awards granted in the year ending 30 June 2004.

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

Service contracts

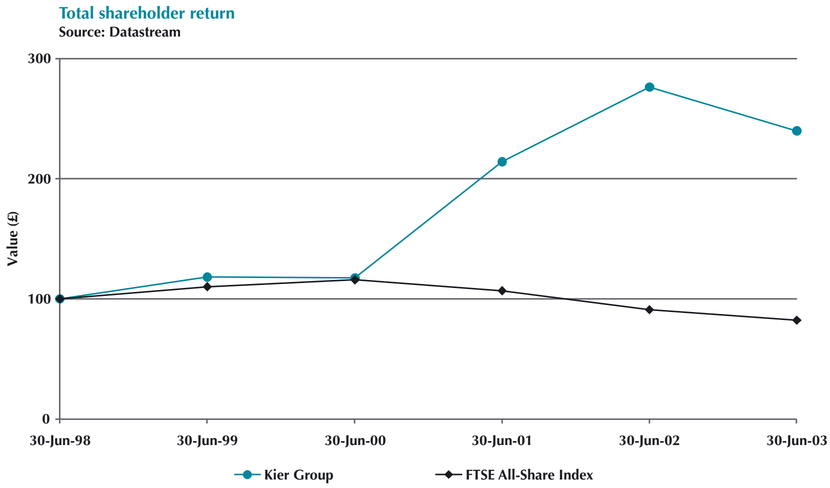
The Company has service agreements with its executive directors dated 14 November 1996 for Mr C R W Busby, 14 November 1996 for Mr J Dodds, 1 October 2001 for Miss D E Mattar, 27 June 2003 for Mr R W Side, 30 June 2003 for Mr R W Simkin and 12 August 2003 for Mr R W Gregory. The notice period is one year for each of the executive directors. In the event of early termination of their service agreements, the executive directors are entitled to compensation of up to one year's salary.

Non-executive Directors

The remuneration of the non-executive directors is determined by the Board and reflects their anticipated time commitment to fulfil their duties. Non-executive directors do not receive bonuses, long-term incentive awards, pension provision or compensation on termination of their appointment. Non-executive directors do not have service agreements.

Total Shareholder Return

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



The graph looks at the value, by 30 June 2003, of £100 invested in Kier Group plc on 30 June 1998 compared with the value of £100 invested in the FTSE All Share Index. The other points plotted are the values at intervening financial year-ends.

Audited Information:

Except for the disclosure on directors' interests the following information on pages 51 to 54 has been audited by the Company's auditors, KPMG Audit Plc.

Directors' Emoluments

The value of all emoluments receivable by each director in respect of the year ended 30 June 2003 was as follows:

	Salary & fees £000	Benefits £000	Bonus £000	Total 2003 £000	Total 2002 £000
C R W Busby	319	19	33	371	335
J Dodds	218	12	25	255	228
P F Berry	26	-	-	26	25
D Homer (retired 30 June 2003)	203	20	21	244	219
S W Leathes	26	-	-	26	24
D E Mattar (appointed 12 September 2001)[1]	212	17	20	249	174
M P W Scarth (retired 7 May 2003)	184	16	19	219	239
R W Side (appointed 1 January 2003)	92	6	10	108	-
R W Simkin (appointed 1 January 2003)	85	7	8	100	-
P T Warry	28	-	-	28	27
D V Brand (retired 24 November 2001)	-	-	-	-	270
	1,393	97	136	1,626	1,541

[1]Salary includes a pension-related salary supplement of £19,000 (explained in pensions section below).

Directors' Pensions

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

	Increase in accrued pension over the year £000	Increase in accrued pension over the year[1] £000	Transfer value of increase in accrued pension[2] £000	Accumulated total accrued pension at 30 June 2003 £000	Transfer value of accrued pension at 30 June 2002 £000	Increase in transfer value[2] £000	Transfer value of accrued pension at 30 June 2003 £000
C R W Busby	22	19	283	207	2,825	704	3,552
J Dodds	17	15	226	135	1,767	405	2,187
D Homer (retired 30 June 2003)[4]	9	8	148	66	768	537	1,312
D E Mattar[4]	3	2	7	12	51	10	68
M P W Scarth (retired 7 May 2003)	13	11	185	147	2,139	582	2,734
R W Side	15	14	184	81	880	295	1,186
R W Simkin	15	14	173	45	367	210	585

[1]The increase in a member's accrued pension over the year shown above is the adjusted figure after allowing for inflation during the year.

[2]Transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less directors' contributions.

[3]Members of the Scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

[4]As Mr D Homer and Miss D E Mattar joined the Company after 1 June 1989, their benefits from the Kier Group Pension Scheme are capped at an annual salary set in accordance with Inland Revenue requirements, currently £99,000.

- The Company operates a FURBS for the benefit of Mr D Homer. During the year the Company contributed £56,886 (2002: £56,886) to the FURBS, a defined contribution scheme. The amounts payable on retirement from the FURBS are not included in the table set out above.
- Included within the salary and fees of Miss D E Mattar in the emoluments table is an allowance representing 20% of salary in excess of the earnings cap.

Directors' Interests

The directors of the Company at 30 June 2003 had the following beneficial interest (including interests of dependent family members) in the Ordinary Shares of the Company:

	30 June 2003	1 July 2002 or later date of appointment
C R W Busby (Chairman)	605,578	601,644
J Dodds (Chief Executive)	566,465	549,910
P F Berry (Non-executive)	5,000	5,000
D Homer	73,349	57,301
S W Leathes (Non-executive)	5,500	5,500
D E Mattar	29,179	10,828
R W Side	156,112	155,953
R W Simkin	262,209	262,209
P T Warry (Non-executive)	7,212	7,033

In addition, the executive directors, as potential beneficiaries of the Kier Group 1999 Employee Benefit Trust, are deemed along with all other UK employees to have an interest in 421,115 (2002: 490,000) Ordinary Shares with a nominal value of £4,211 (2002: £4,900) representing 1.2% of the called up share capital of the Company, held by the Trust.

At 1 July 2003, his date of appointment as a director, Mr R W Gregory was beneficially interested in 15,766 Ordinary Shares of the Company.

At 15 September 2003 the following directors had acquired beneficial interests in further Ordinary Shares: Mr C R W Busby, 701 shares; Mr J Dodds, 44 shares; Mr R W Gregory, 695 shares; Miss D E Mattar, 695 shares. Mr R W Side had a beneficial interest in 152,806 Ordinary Shares at that date. There had been no changes in the interests of the other directors since 30 June 2003.

Directors' Share Options

The directors held the following Sharesave Scheme Options over the Ordinary Shares of the Company:

	Date of grant	Exercise price	30 June 2003	1 July 2002 or later date of appointment
C R W Busby	16 May 2000	250p	651	651
D E Mattar	16 May 2000	250p	651	651
R W Side	16 May 2000	250p	651	651

The Sharesave Scheme Options shown above were, as for all company employees under this scheme, not subject to a performance condition and were exercised in July 2003.

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

	Date of grant	Exercise price	1 July 2002	Exercised	Market price at date of exercise	30 June 2003
C R W Busby	14 Oct 1998	189.5p	8,000	8,000	416p	-
J Dodds	14 Oct 1998	189.5p	8,000	8,000	416p	-
D E Mattar	9 July 1998	250.0p	12,000	-	-	12,000
	14 Oct 1998	189.5p	2,000	2,000	416p	-
R W Side	5 Dec 1996	170.0p	17,647	-	-	17,647
	14 Oct 1998	189.5p	2,000	2,000	416p	-
R W Simkin	5 Dec 1996	170.0p	11,764	-	-	11,764
	14 Oct 1998	189.5p	2,000	-	-	2,000

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

All Performance Related Options become exercisable in full after three years and lapse ten years after the date they were granted subject to the Company's total shareholder return over any three year period ending on the anniversary of the date of grant outperforming 75% of a peer group of 20 selected companies in the building and construction sector. Options do not become exercisable if the Company remains below the median position of the peer group. If the Company reaches but does not exceed the median position, 50% of the shares could be acquired on exercise of the options; between median and upper quartile the amounts exercisable are pro-rated. Based on total shareholder return over the three year periods ended July, October and December 2001 directors were entitled to acquire 100% of the shares over which they were granted options in 1996 and 1998.

The market price of the shares at 30 June 2003 was 502p and the range during the year was 405p to 607p. The aggregate gain on the exercise of the share options in the year was £45,300 (2002: £433,807).

LTIP

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

	2001 award	2002 award	2003 award	Cumulative Total
C R W Busby	51,210	33,519	-	84,729
J Dodds	34,450	22,346	23,930	80,726
D Homer	34,078	22,346	-	56,424
D E Mattar	7,500	18,994	22,148	48,642
R W Side	7,500	7,500	10,000	25,000
R W Simkin	7,500	5,000	5,000	17,500
Date of award	2 October 2000	2 October 2001	1 October 2002	
Share price	268.5p	447.5p	451.5p	
End of performance period	30 June 2003	30 June 2004	30 June 2005	

All awards granted to date under the LTIP are subject to the earnings per share performance targets outlined in the policy section of this report.

For the three year period ended 30 June 2002 earnings per share increased by 23.96% per annum compound. Accordingly the directors received 94.88% of the 2000 award (granted on 22 December 1999 when the share price was 301.5p) and were entitled to receive a combination of shares, at no cost, and cash (representing the amount required by each director to settle his tax liability). Shares vested during the year in executive directors of the Company under the 2000 award of the LTIP, together with the cash element received, were:

	2000 award No.	Shares lapsed No.	Shares vested No.	Received as shares No.	Market price £	Received as cash £	Total LTIP award £
C R W Busby	41,459	2,123	39,336	23,601	4.465	70,257	175,635
J Dodds	28,524	1,461	27,063	16,237	4.465	48,338	120,836
D Homer	28,192	1,444	26,748	16,048	4.465	47,776	119,430
D E Mattar	7,500	384	7,116	7,116	4.465	-	31,773
M P W Scarth	30,182	1,546	28,636	17,181	4.465	51,147	127,860
R W Side	7,500	384	7,116	4,269	4.465	12,712	31,773
R W Simkin	7,500	384	7,116	4,269	4.465	12,712	31,773
							639,080
						2002:	-

For the three year period ended on 30 June 2003 earnings per share increased by 22.00% per annum compound. Accordingly the directors will receive 85.47% of the 2001 award and will be entitled to receive the number of shares set out below, at no cost, on 30 September 2003 on which income tax and national insurance will be payable. Alternatively the directors may elect to receive an element of the entitlement in cash in order to satisfy their statutory deductions based on up to 41% of the number of shares to which they are entitled at the share price prevailing on the date the share transfers are made.

	Number of shares
C R W Busby	43,769
J Dodds	29,444
D Homer	29,126
D E Mattar	6,410
R W Side	6,410
R W Simkin	6,410

Approval of Report

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

Signed on behalf of the Board

P F Berry
Chairman Remuneration Committee

Statement of directors' responsibilities

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

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

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

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

We have audited the financial statements on pages 57 to 78. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 55, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the Corporate Governance Statement on pages 47 and 48 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 June 2003 and of the profit of the Group for the year then ended; and

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

16 September 2003

Consolidated profit and loss account

for the year ended 30 June 2003

	Notes	2003 £m	2002 £m
Turnover - Continuing operations			
Group and share of joint ventures	2	**1,445.6**	1,382.7
Less share of joint ventures' turnover		**(27.9)**	(13.3)
Group turnover (acquisitions £38.0m)		**1,417.7**	1,369.4
Cost of sales		**(1,307.2)**	(1,276.2)
Gross profit		**110.5**	93.2
Administrative expenses		**(77.4)**	(68.4)
Group operating profit - Continuing operations		**33.1**	24.8
Share of operating profit - joint ventures		**3.1**	1.4
Share of operating loss - associates (Belan)		**(2.3)**	-
Operating profit: Group and share of joint ventures (acquisitions: 2003 loss £7.3m)	2	**33.9**	26.2
Profit on disposal of interest in subsidiary undertaking		**-**	0.7
Net interest receivable - Group	3	**0.6**	1.9
Net interest payable - joint ventures		**(1.2)**	(0.6)
Net interest payable - associates		**-**	(0.2)
Profit on ordinary activities before taxation	2	**33.3**	28.0
Taxation on profit on ordinary activities	7	**(9.5)**	(7.7)
Profit for the year		**23.8**	20.3
Dividends	8	**(5.6)**	(4.8)
Retained profit for the Group and its share of joint ventures and associates		**18.2**	15.5
Earnings per Ordinary Share	9		
- basic		**69.5p**	60.4p
- diluted		**68.2p**	58.8p
Adjusted Earnings per Ordinary Share (excluding profit on disposal of interest in subsidiary undertaking)	9		
- basic		**69.5p**	58.3p
- diluted		**68.2p**	56.7p

All items in the profit and loss account relate to operations continuing as at 30 June 2003.

Acquisitions in 2003 relate to the acquisition of the shares in Partnerships First Limited on 26 November 2002 and the acquisition of the business relating to the Construction and Building Services operation of Sheffield City Council on 31 March 2003.

Consolidated balance sheet

at 30 June 2003

	Notes	2003 £m	2002 £m
Fixed assets			
Intangible assets - goodwill	10	**21.1**	-
Tangible assets	11	**53.0**	48.9
Investments			
Investments in joint ventures			
Share of gross assets	12	**159.1**	143.1
Share of gross liabilities	12	**(155.8)**	(139.8)
Loans provided to joint ventures	12	**27.4**	21.9
Investment in joint ventures	12	**30.7**	25.2
Investment in associates	12	**-**	2.3
Investment in own shares	12	**1.5**	1.6
		32.2	29.1
		106.3	78.0
Current assets			
Stock	13	**261.3**	251.3
Debtors	14	**205.2**	209.2
Cash at bank and in hand	18	**92.5**	49.2
		559.0	509.7
Current liabilities			
Creditors - amounts falling due within one year	15	**(496.1)**	(488.2)
Net current assets		**62.9**	21.5
Total assets less current liabilities		**169.2**	99.5
Creditors - amounts falling due after more than one year	15	**(62.7)**	(18.0)
Provisions for liabilities and charges	16	**(13.1)**	(7.0)
Net assets		**93.4**	74.5
Capital and reserves			
Called up share capital	19	**0.3**	0.3
Share premium account	20	**15.2**	13.7
Capital redemption reserve	20	**2.7**	2.7
Profit and loss account	20	**75.2**	57.8
Equity shareholders' funds		**93.4**	74.5

Company balance sheet

at 30 June 2003

	Notes	2003 £m	2002 £m
Fixed assets			
Investment in subsidiary undertakings	12	**54.8**	54.8
Investment in own shares	12	**1.5**	1.6
		56.3	56.4
Current assets			
Debtors	14	**21.9**	21.2
Cash at bank and in hand		**59.7**	22.6
		81.6	43.8
Current liabilities			
Creditors - amounts falling due within one year	15	**(68.0)**	(60.7)
Net current assets/(liabilities)		**13.6**	(16.9)
Total assets less current liabilities		**69.9**	39.5
Creditors - amounts falling due after more than one year	15	**(41.4)**	(12.5)
Net assets		**28.5**	27.0
Capital and reserves			
Called up share capital	19	**0.3**	0.3
Share premium account	20	**15.2**	13.7
Merger relief reserve	20	**1.2**	1.2
Capital redemption reserve	20	**2.7**	2.7
Profit and loss account	20	**9.1**	9.1
Equity shareholders' funds		**28.5**	27.0

The financial statements were approved by the Board of directors on 16 September 2003 and were signed on its behalf by:

J Dodds

D E Mattar

Directors

Consolidated cash flow statement

for the year ended 30 June 2003

	Notes	2003 £m	2002 £m
Net cash inflow from operating activities	21 (a)	**53.5**	50.0
Dividends received from joint ventures		**1.1**	-
Returns on investments and servicing of finance			
Interest received		**0.9**	2.1
Interest paid		**(1.3)**	(1.1)
Interest from joint ventures		**0.7**	0.7
		0.3	1.7
Taxation paid		**(7.7)**	(6.8)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(10.8)**	(11.5)
Sale of tangible fixed assets		**2.2**	2.1
		(8.6)	(9.4)
Acquisitions and disposals	21 (c)	**(19.0)**	(44.0)
Equity dividends paid		**(3.8)**	(3.2)
Cash inflow/(outflow) before management of liquid resources and financing		**15.8**	(11.7)
Management of liquid resources			
Net increase in short-term bank deposits		**(34.3)**	(6.4)
Financing			
Issue of ordinary share capital		**0.2**	0.5
Purchase of own shares		**(0.4)**	(0.5)
Net proceeds of private placement of loan notes		**30.1**	-
		29.9	-
Increase/(decrease) in cash during the year		**11.4**	(18.1)
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash during the year		**11.4**	(18.1)
Cash outflow from management of liquid resources		**34.3**	6.4
Increase in long-term borrowings		**(30.1)**	-
Movement in net funds in the year		**15.6**	(11.7)
Cash, net of debt on 1 July		**46.4**	58.1
Cash, net of debt at 30 June	21 (b)	**62.0**	46.4

Consolidated statement of total recognised gains and losses

for the year ended 30 June 2003

	2003 £m	2002 £m
Profit for the year	**23.8**	20.3
Currency translation	**(0.8)**	(0.5)
Total recognised gains and losses for the year	**23.0**	19.8

Reconciliation of movements in shareholders' funds

for the year ended 30 June 2003

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Shareholders' funds at 1 July	**74.5**	57.8	**27.0**	25.1
Issue of shares	**1.5**	1.7	**1.5**	1.7
Total recognised gains and losses for the year	**23.0**	19.8	**5.6**	5.0
Dividends	**(5.6)**	(4.8)	**(5.6)**	(4.8)
Shareholders' funds at 30 June	**93.4**	74.5	**28.5**	27.0

Notes to the financial statements

1 Accounting policies

Convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements. The Group has followed the transitional arrangements of FRS 17 'Retirement Benefits' in these financial statements.

Consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings. The results of subsidiary undertakings acquired or disposed of during the year are included from or up to the date of acquisition or disposal. On the acquisition of a subsidiary undertaking fair values are attributed to the net assets acquired. Purchased goodwill arising on acquisition is capitalised and amortised over its useful economic life in accordance with FRS 10 'Goodwill and Intangible Assets'. On disposal of a business any associated goodwill that has been written off will be reversed.

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

Turnover

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

Profits

Profit on contracts is calculated in accordance with accounting standards and industry practice and may not relate to turnover.

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

The general principles for profit recognition are:

- profit in respect of short-term contracts is recognised when the contract is completed;

- profit in respect of long-term contracts is recognised on a percentage of completion basis when the contract's ultimate outcome can be foreseen with reasonable certainty;

- provision is made for losses incurred or foreseen in bringing the contract to completion as soon as they become apparent; and

- claims receivable are recognised as income when received or certified for payment except that, in preparing contract forecasts to completion, a prudent and reasonable evaluation of claims receivable may be included to mitigate foreseeable losses.

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

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

1 Accounting policies continued

Pre-contract costs

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

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

Tangible fixed assets

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

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

Leased assets

Assets acquired under finance leases are capitalised and appropriately depreciated and the capital element of outstanding lease rentals is included in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Stock

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

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

Deferred taxation

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

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

Joint arrangements and joint ventures

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

Foreign currencies

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

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

1 Accounting policies continued

Pension costs

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

2 Turnover, profit and segmental information

Segmental analysis of the results is shown below:

	Turnover		Operating profit		Profit before tax	
	2003	2002	**2003**	2002	**2003**	2002
	£m	£m	**£m**	£m	**£m**	£m
Construction & Services	**1,237.9**	1,218.4	**12.9**	12.5	**21.2**	20.8
Homes & Property	**201.3**	158.8	**32.4**	22.2	**24.5**	17.6
Infrastructure Investment	**6.4**	5.5	**(0.5)**	(0.6)	**0.7**	(0.2)
Corporate Overhead/Finance	**-**	-	**(8.6)**	(7.9)	**(10.8)**	(10.0)
Investment in Belan	**-**	-	**(2.3)**	-	**(2.3)**	(0.2)
	1,445.6	1,382.7	**33.9**	26.2	**33.3**	28.0

	Net operating assets		Net assets	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Construction & Services	**(143.8)**	(146.0)	**63.5**	60.7
Homes & Property	**165.0**	168.8	**48.8**	41.8
Infrastructure Investment	**11.1**	6.7	**(0.9)**	(1.6)
Corporate Overhead/Finance	**(0.9)**	(1.4)	**(18.0)**	(26.4)
	31.4	28.1	**93.4**	74.5

Geographical analysis of the results is shown below:

	Turnover		Operating profit		Profit before tax	
	2003	2002	**2003**	2002	**2003**	2002
	£m	£m	**£m**	£m	**£m**	£m
United Kingdom	**1,368.2**	1,310.7	**26.1**	19.9	**25.4**	21.3
Rest of World	**77.4**	72.0	**7.8**	6.3	**7.9**	6.7
	1,445.6	1,382.7	**33.9**	26.2	**33.3**	28.0

	Net operating assets		Net assets	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
United Kingdom	**41.4**	29.5	**87.3**	69.7
Rest of World	**(10.0)**	(1.4)	**6.1**	4.8
	31.4	28.1	**93.4**	74.5

The above analysis of turnover shows the geographical segments from which the products or services are supplied and is not materially different from the geographical segments to which products or services are supplied.

Net operating assets represent assets excluding cash, bank overdrafts, long-term borrowings and interest-bearing inter-company loans (see note 15).

2 Turnover, profit and segmental information continued

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

	2003 £m	2002 £m
Remuneration of auditors - audit fees	**0.7**	0.6
- other fees	**0.4**	0.5
Hire of plant and machinery	**27.9**	24.2
Operating lease rentals:		
Land and buildings	**1.7**	1.3
Plant and machinery	**7.7**	6.9
Goodwill amortisation	**0.9**	-
Depreciation of tangible fixed assets	**8.1**	7.3
Profit on sale of tangible fixed assets	**(0.8)**	(0.4)

Remuneration of the auditors in respect of the Company for audit amounted to £4,100 (2002: £ 3,900). Other fees paid to auditors relate to taxation compliance and advisory work and work in connection with acquisitions and disposals. No consultancy related work has been carried out by the auditors in either of the two years ended 30 June 2003.

In addition to the above £0.1m of audit fees (2002: £0.1m) and £0.1m of non-audit fees (2002: £0.2m) were paid to the Group auditors by joint ventures in which the Group has an interest.

3 Net interest receivable - Group

	2003 £m	2002 £m
Interest receivable	**2.1**	2.3
Interest payable on bank loans and overdrafts	**(0.8)**	(0.4)
Interest payable on long-term borrowings	**(0.7)**	-
	0.6	1.9

4 Information relating to employees

	2003 No	2002 No
Average number of persons employed during the year including executive directors was:		
United Kingdom	**7,119**	5,382
Rest of World	**1,302**	1,643
	8,421	7,025
	£m	£m
Group staff costs are as follows:		
United Kingdom	**195.8**	162.6
Rest of World	**18.0**	17.1
	213.8	179.7
Wages and salaries	**185.1**	155.9
Social security costs	**14.5**	11.6
Other pension costs (note 6)	**14.2**	12.2
	213.8	179.7

5 Information relating to directors

Information relating to directors' emoluments, pension entitlements, share options and Long-Term Incentive Plan (LTIP) interests appears in the Directors' Remuneration Report on pages 49 to 54.

6 Pensions

a) SSAP 24 'Pension Costs'

The principal UK pension scheme is the Kier Group Pension Scheme which includes a defined benefit section and a defined contribution plan. The assets of the Scheme are held under trust separately from those of the Group; the Trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers. Pension costs are assessed on the advice of an independent qualified actuary using the projected unit method and the following main assumptions for the financial year ended 30 June 2003:

- pension liabilities will be discounted at the rates of 7.25% pre-retirement and 6.25% post-retirement per annum;
- salary increases will be 4.3% to 4.8% per annum; and
- present and future pensions will increase at either 2.7% per annum or at rates set in the Scheme rules.

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

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

The Group's pension charge for the final salary section of the Scheme has been calculated on the basis of the above review and was not materially different from the contribution paid during the year amounting to £13.0m (2002: £11.0m).

The above pension cost is in respect of the final salary section of the Scheme. This section was closed to new entrants on 1 January 2002 with most new employees after that date being offered membership of the Retirement Savings Plan, a defined contribution arrangement. The Group is required to pay contributions in respect of those employees in accordance with the rates specified in the Plan. The contributions paid to the Retirement Saving Plan during the year, and the pension charge amounted to £0.5m (2002: £0.1m).

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

b) FRS 17 'Retirement Benefits'

The valuation used for FRS 17 disclosure has been based on the most recent actuarial valuation at 1 April 2002 updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the Scheme at 30 June 2003. The Scheme's assets are stated at their market values at 30 June 2003.

The Group, through its subsidiary Kier Sheffield LLP, was granted a fully funded past service position in the South Yorkshire Pension Fund (SYPF) in respect of 1,146 transferring employees who were active members of the fund at 31 March 2003. In the period 31 March 2003 to 30 June 2003, employer contributions paid in accordance with SYPF actuary's recommendations amounted to £0.7m being 12.5% of pay. The contributions paid together with investment returns are estimated to be more than sufficient to maintain the fully funded past service position at 30 June 2003.

6 Pensions continued

The financial assumptions used to calculate the disclosure for scheme liabilities under FRS 17 are:

	2003	2002	2001
	%	%	%
Rate of general increases in salaries	**3.8**	4.0	4.1
Rate of increase to pensions in payment liable for Limited Price Indexation	**2.5**	2.5	2.6
Discount rate	**5.5**	6.0	6.0
Inflation rate	**2.5**	2.5	2.6

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

	Long-term rate of return expected				**Value**	
	2003	2002	2001	**2003**	2002	2001
	%	%	%	**£m**	£m	£m
Equities	**8.0**	8.0	8.0	**162.3**	178.5	195.2
Corporate bonds	**5.0**	6.0	6.3	**58.0**	53.7	52.0
Government bonds	**4.5**	5.0	5.3	**72.4**	64.6	61.0
Total market value of assets				**292.7**	296.8	308.2
Present value of Scheme liabilities				**(406.5)**	(362.9)	(332.5)
Deficit in the Scheme				**(113.8)**	(66.1)	(24.3)
Related deferred tax asset				**34.1**	19.8	7.3
Net pension liability				**(79.7)**	(46.3)	(17.0)

The amount chargeable to operating profit and finance income for the year ended 30 June 2003 had FRS 17 been operative is as follows:

	2003		2002	
	£m	**£m**	£m	£m
Operating cost				
Current service cost		**(14.4)**		(10.3)
Other finance items				
Interest on Scheme liabilities	**(21.3)**		(19.5)	
Expected return on Scheme assets	**20.9**		22.3	
		(0.4)		2.8
Pension costs under FRS 17		**(14.8)**		(7.5)

The amount recognised in the Statement of Total Recognised Gains and Losses had FRS 17 been operative is analysed below:

	2003		2002	
	£m	**% of Scheme assets/ liabilities**	£m	% of Scheme assets/ liabilities
Actual return less expected return on Scheme assets	**(28.5)**	**(9.7)**	(36.7)	(12.4)
Experience gains and losses arising on Scheme liabilities	-	-	8.4	2.3
Changes in assumptions underlying the present value of the Scheme liabilities	**(17.4)**	**(4.3)**	(17.0)	(4.7)
Actuarial loss recognised in Statement of Total Recognised Gains and Losses	**(45.9)**	**(11.3)**	(45.3)	(12.5)

6 Pensions continued

The movement in the deficit during the year is disclosed below:

	2003 £m	2002 £m
Deficit in Scheme at 1 July	**(66.1)**	(24.3)
Movement in year:		
Current service cost	**(14.4)**	(10.3)
Contributions	**13.0**	11.0
Other finance cost	**(0.4)**	2.8
Actuarial loss	**(45.9)**	(45.3)
Deficit in Scheme at 30 June	**(113.8)**	(66.1)

An analysis of anticipated contribution and income receipts and benefit payments indicates that the Scheme is likely to enjoy positive net cash flows for the next nine years.

7 Taxation

a) Analysis of the charge in the year

	2003 £m	2002 £m
Current tax		
UK corporation tax on profits for the year at 30%	**9.0**	6.6
Adjustments in respect of previous years	**(0.4)**	0.6
Joint venture tax	**0.3**	0.2
Overseas tax	**0.9**	0.2
Total current tax (note 7b)	**9.8**	7.6
Deferred tax		
Origination and reversal of timing differences	**(0.2)**	0.6
Adjustments in respect of previous years	**(0.5)**	(0.5)
Joint venture tax	**0.4**	-
Total deferred tax	**(0.3)**	0.1
Total tax on profit on ordinary activities	**9.5**	7.7

b) Factors affecting the tax charge for the year

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

	2003 £m	2002 £m
Profit on ordinary activities before taxation	**33.3**	28.0
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**10.0**	8.4
Effects of:		
Expenses not deductible for tax purposes	**0.5**	0.6
Utilisation of tax losses	**(0.1)**	(1.2)
Profits offset by capital losses	**(0.2)**	(0.5)
Loss on investment in Belan Limited	**0.7**	-
Movement in tax provision	**(0.5)**	-
Capital allowances in excess of depreciation	**(0.2)**	-
Overseas tax in excess of UK tax relief	**0.3**	-
Joint venture deferred tax	**(0.4)**	-
Other	**0.1**	(0.3)
Adjustments to tax charge in respect of previous years - current tax	**(0.4)**	0.6
Current tax charge for the year	**9.8**	7.6

7 Taxation continued

c) Factors that may affect future tax charges

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

8 Dividends

	2003	2002
	£m	£m
Ordinary Shares		
Paid 5.2 pence (2002: 4.5 pence)	**1.8**	1.5
Proposed 11.2 pence (2002: 9.7 pence)	**3.8**	3.3
	5.6	4.8

9 Earnings per share

Earnings per share is calculated as follows:

	2003		2002	
	Basic	**Diluted**	Basic	Diluted
	£m	**£m**	£m	£m
Profit after tax	**23.8**	**23.8**	20.3	20.3
Less: profit on disposal of interest in subsidiary undertaking	**-**	**-**	(0.7)	(0.7)
Adjusted profit after tax	**23.8**	**23.8**	19.6	19.6
	million	**million**	million	million
Weighted average number of shares	**34.2**	**34.2**	33.6	33.6
Weighted average number of unexercised options				
- dilutive effect	**-**	**0.3**	-	0.5
Weighted average impact of LTIP	**-**	**0.4**	-	0.4
Weighted average number of shares used for EPS	**34.2**	**34.9**	33.6	34.5
	pence	**pence**	pence	pence
Earnings per share	**69.5**	**68.2**	60.4	58.8
Adjusted earnings per share (after excluding profit on disposal of interest in subsidiary undertaking)	**69.5**	**68.2**	58.3	56.7

10 Intangible assets

Group	Goodwill £m
Cost	
At 1 July 2002	-
Additions	22.0
At 30 June 2003	**22.0**
Amortisation	
At 1 July 2002	-
Charge for the year	0.9
At 30 June 2003	**0.9**
Net book value	
At 30 June 2003	**21.1**
At 30 June 2002	-

Additions to goodwill comprise goodwill arising on the acquisition of Partnerships First Limited on 26 November 2002, which is being amortised over a period of 10 years, and on the acquisition by the Group of the business and assets of the Construction and Building Services operation of Sheffield City Council on 31 March 2003 which is being amortised over a period of 10 years. See note 21 on pages 76 and 77.

11 Tangible fixed assets

Group	Land and buildings £m	Plant, vehicles & fixtures £m	Total £m
Cost			
At 1 July 2002	22.2	66.8	89.0
Transfers	2.8	-	2.8
Additions	1.0	9.6	10.6
Acquisitions	-	0.3	0.3
Disposals	(0.2)	(9.1)	(9.3)
Currency realignments	-	(0.3)	(0.3)
At 30 June 2003	**25.8**	**67.3**	**93.1**
Accumulated depreciation			
At 1 July 2002	0.5	39.6	40.1
Charge for the year	0.2	7.9	8.1
Disposals	-	(7.8)	(7.8)
Currency realignments	-	(0.3)	(0.3)
At 30 June 2003	**0.7**	**39.4**	**40.1**
Net book value			
At 30 June 2003	**25.1**	**27.9**	**53.0**
At 30 June 2002	21.7	27.2	48.9

The net book value of land and buildings comprises freeholds of £24.1m (2002: £20.5m), long leaseholds of £0.7m (2002: £0.8m) and short leaseholds of £0.3m (2002: £0.4m).

The net book value of land and buildings includes £3.6m (2002: £nil) of land and mineral rights held for development.

12 Investments

a) Movements in year

	Group £m	Company £m
Interest in subsidiary undertakings		
At 1 July 2002 and 30 June 2003	-	**54.8**
Investment in joint ventures		
At 1 July 2002	**25.2**	-
Additions	**5.7**	-
Share of retained profit	**1.2**	-
Dividends received	**(1.1)**	-
Currency realignment	**(0.3)**	-
At 30 June 2003	**30.7**	-
Investment in associates		
At 1 July 2002	**2.3**	-
Share of retained loss	**(2.3)**	-
At 30 June 2003	-	-
Own shares held by the Kier Group 1999 Employee Benefit Trust at 30 June 2003	**1.5**	**1.5**
Total investments at 30 June 2003	**32.2**	**56.3**

On 26 November 2002 the Group disposed of its investment in Belan Limited, an associated company, and acquired 100% of the shares in Partnerships First Limited, a wholly owned subsidiary of Belan Limited.

During the year the Kier Group 1999 Employee Benefit Trust acquired a further 100,000 Ordinary Shares in Kier Group plc at a cost of £0.4m (2002: 90,000 Ordinary Shares at a cost of £0.5m) and issued 168,885 shares to directors in satisfaction of the 2000 LTIP award at a cost of £0.5m. The cumulative number of shares held at 30 June 2003 is 421,115 at a total cost of £1.5m (2002: 490,000 at a total cost of £1.6m).

b) Analysis of investment in joint ventures

			Group		
	2003 £m	**2003 £m**	**2003 £m**	**2003 £m**	2002 £m
	Kier Developments Limited	**Prospect Healthcare (Hairmyres) Limited**	**Other joint ventures**	**Total**	Total
Investment in joint ventures					
Fixed assets	**0.3**	-	**0.3**	**0.6**	1.2
Current assets	**56.9**	**45.8**	**55.8**	**158.5**	141.9
Gross assets	**57.2**	**45.8**	**56.1**	**159.1**	143.1
Creditors - amounts falling due within one year	**(5.0)**	**(4.1)**	**(3.7)**	**(12.8)**	(10.6)
Creditors - amounts falling due after more than one year	**(51.9)**	**(41.0)**	**(50.1)**	**(143.0)**	(129.2)
Net external assets	**0.3**	**0.7**	**2.3**	**3.3**	3.3
Loans provided to joint ventures	**18.6**	**4.2**	**4.6**	**27.4**	21.9
Total investment in joint ventures	**18.9**	**4.9**	**6.9**	**30.7**	25.2

Details of the Group's principal operating subsidiaries are given on page 79. Details of the Group's interest in joint ventures are given on page 81.

13 Stock

	Group 2003 £m	Group 2002 £m
Raw materials and consumables	**1.7**	0.8
Long-term contract balances	**26.2**	31.9
Land and work in progress held for development	**225.2**	211.2
Other work in progress	**8.2**	7.4
	261.3	251.3

Long-term contract balances and other work in progress are stated net of payments receivable on account of £3.4m (2002: £8.0m).

14 Debtors

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due within one year:				
Trade debtors	**160.9**	160.8	**-**	-
Amounts recoverable on contracts	**20.0**	22.0	**-**	-
Amounts due from subsidiary undertakings	**-**	-	**19.2**	18.9
Amounts receivable from joint ventures	**1.3**	1.2	**-**	-
Other debtors	**4.1**	6.4	**1.9**	1.6
Prepayments and accrued income	**7.0**	3.3	**-**	-
Corporation tax	**-**	-	**0.8**	0.7
Other taxation	**4.7**	7.9	**-**	-
	198.0	201.6	**21.9**	21.2
Amounts falling due after one year:				
Trade debtors	**0.1**	-	**-**	-
Amounts recoverable on contracts	**7.1**	7.6	**-**	-
	7.2	7.6	**-**	-
Total debtors	**205.2**	209.2	**21.9**	21.2

15 Creditors

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due within one year:				
Bank loans and overdrafts	**0.4**	2.8	**40.7**	34.4
Payments received on account	**5.3**	4.8	**-**	-
Trade creditors	**312.9**	345.0	**-**	-
Amounts due to subsidiary undertakings	**-**	-	**19.8**	20.4
Proposed dividend	**3.8**	3.3	**3.8**	3.3
Corporation tax	**4.5**	4.0	**-**	-
Other taxation and social security costs	**17.5**	10.7	**-**	-
Other creditors	**39.5**	8.8	**3.7**	2.6
Accruals and deferred income	**112.2**	108.8	**-**	-
	496.1	488.2	**68.0**	60.7

15 Creditors continued

	Group		Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Amounts falling due after more than one year:				
Long-term borrowings	**30.1**	-	**30.1**	-
Trade creditors	**20.8**	13.2	**-**	-
Amounts due to subsidiary undertakings	**-**	-	**11.3**	12.5
Accruals and deferred income	**11.8**	4.8	**-**	-
	62.7	18.0	**41.4**	12.5

Long-term borrowings due after more than one year comprises borrowings in respect of the 10-year private placement of loan notes which was made on 19 February 2003. The borrowings are unsecured and fixed at an interest rate of 6.4% per annum for 10 years.

The amount of £11.3m (2002: £12.5m) due to subsidiary undertakings relates to loans which were made to the Company in accordance with the provisions of Sections 151 to 158 of the Companies Act 1985. The loans bear interest at 1% over bank base rate and are fully repayable by 3 July 2006.

16 Provisions for liabilities and charges

Group	Deferred tax £m	Provisions for contract losses £m	Total £m
At 1 July 2002	2.0	5.0	7.0
Profit and loss account	(0.7)	3.4	2.7
On acquisition	(1.2)	4.6	3.4
At 30 June 2003	**0.1**	**13.0**	**13.1**

Deferred taxation is fully provided as follows:

	2003	2002
	£m	£m
Accelerated capital allowances	**1.4**	1.7
Short-term timing differences	**(0.1)**	0.3
Unrelieved tax losses	**(1.2)**	-
Provision for deferred tax	**0.1**	2.0

17 Obligations under leasing agreements

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

	Land and buildings		Plant and machinery	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Operating leases expiring:				
Within one year	**0.1**	0.1	**1.3**	1.1
Between one and five years	**0.5**	0.4	**6.2**	4.9
In five years or more	**1.5**	0.8	**0.6**	0.5
	2.1	1.3	**8.1**	6.5

18 Financial instruments

At 30 June 2003, the Group had cash, overdrafts and long-term borrowings denominated in the following currencies:

	2003 Financial assets £m	**2003** Financial liabilities £m	**2003** Aggregate £m	2002 Financial assets £m	2002 Financial liabilities £m	2002 Aggregate £m
Currency						
Sterling	**81.4**	**(16.7)**	**64.7**	34.5	(0.5)	34.0
US dollar	**2.5**	**(13.4)**	**(10.9)**	1.8	(2.3)	(0.5)
Hong Kong dollar	**7.5**	**-**	**7.5**	11.8	-	11.8
Other	**1.1**	**(0.4)**	**0.7**	1.1	-	1.1
Total	**92.5**	**(30.5)**	**62.0**	49.2	(2.8)	46.4

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

	2003 £m	2002 £m
Due in one year or less	**(0.4)**	(2.8)
Due in more than five years	**(30.1)**	-
	(30.5)	(2.8)

Amounts due in more than five years represent a £17.0m UK sterling loan and a £13.4m US dollar loan, net of £0.3m of capitalised finance costs, from the private placement of loan notes made on 19 February 2003. The loans are repayable in one payment on 19 February 2013. The UK sterling loan is at a fixed interest rate of 6.4%. The Group has entered into interest payment and repayment swaps for the US dollar loan, which give an effective 6.4% fixed interest rate. The remaining financial assets and liabilities are cash, short-term deposits and overdrafts at floating rates based on LIBOR.

Currency swaps are entered into to hedge part of the Group's foreign currency exposure:

	Book value £m	**Fair value** £m
Forward rate contracts		
Euro 24.2m forward sale and US dollar 21.1m forward purchase	**-**	**2.1**

The Group has £35.0m of unsecured committed borrowing facilities due for renewal as follows:

	Undrawn facility £m
January 2004	**20.0**
October 2004	**15.0**
	35.0

In addition the Group has £15.0m of unsecured overdraft facilities repayable on demand.

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

19 Share capital

The share capital of the Company comprises:

	2003		2002	
	No	**£m**	No	£m
Ordinary Shares of 1p each				
Authorised	**45,000,000**	**0.4**	45,000,000	0.4
Issued and fully paid	**34,867,672**	**0.3**	34,450,069	0.3

During the year 417,603 Ordinary Shares were issued at a total premium of £1.5m, of which 294,052 were issued as a scrip dividend alternative at a premium of £1.3m.

At 30 June 2003 there were options outstanding to subscribe for Ordinary Shares as follows:

	No	**Period exercisable**	**Option price**
Sharesave	562,384	2003	250p
Performance related	88,232	1999-2006	170p
Performance related	12,000	2001-2008	250p
Performance related	11,000	2001-2008	189.5p

LTIP

At 30 June 2003 the Kier Group 1999 Employee Benefit Trust held 421,115 Ordinary Shares in Kier Group plc at a cost of £1.5m. The market value of these shares at 30 June 2003 was £2.1m. The dividends on these shares have been waived. All of the above shares have been conditionally awarded to employees, subject to the Group achieving prescribed earnings per share growth targets. The cost of the Kier Group 1999 Long-Term Incentive Plan is based on the book value of shares already purchased for the award and on the fair value at the date on which the award was made for the shares still to be purchased. This cost is recognised based on a reasonable expectation of the extent to which performance criteria will be met and is accounted for over the three year period to which the performance targets relate.

20 Reserves

The movement on reserves is as follows:

Group	**Share premium £m**	**Merger relief reserve £m**	**Capital redemption reserve £m**	**Profit & loss £m**
At 1 July 2002	13.7	-	2.7	57.8
Issue of shares	1.5	-	-	-
Profit for the year	-	-	-	23.8
Currency translation	-	-	-	(0.8)
Dividends	-	-	-	(5.6)
At 30 June 2003	**15.2**	**-**	**2.7**	**75.2**

The cumulative amount charged direct to profit and loss reserve in respect of goodwill is £9.1m (2002: £9.1m).

Company	**Share premium £m**	**Merger relief reserve £m**	**Capital redemption reserve £m**	**Profit & loss £m**
At 1 July 2002	13.7	1.2	2.7	9.1
Issue of shares	1.5	-	-	-
Profit for the year	-	-	-	5.6
Dividends	-	-	-	(5.6)
At 30 June 2003	**15.2**	**1.2**	**2.7**	**9.1**

21 Cash flow notes

a) Reconciliation of operating profit to operating cash flows

	2003 £m	2002 £m
Group operating profit	**33.1**	24.8
Amortisation of goodwill	**0.9**	-
Depreciation charges	**8.1**	7.3
Profit on sale of fixed assets	**(0.8)**	(0.4)
Increase in stocks	**(5.8)**	(48.5)
Decrease in debtors	**13.1**	3.7
Increase in creditors	**1.5**	62.3
Increase in provisions	**3.4**	0.8
Net cash inflow from operating activities	**53.5**	50.0

b) Analysis of changes in net funds

	1 July 2002 £m	Cash flows £m	30 June 2003 £m
Cash at bank and in hand	32.5	9.0	**41.5**
Bank overdrafts	(2.8)	2.4	**(0.4)**
Short-term bank deposits	16.7	34.3	**51.0**
Long-term borrowings	-	(30.1)	**(30.1)**
Cash, net of debt	46.4	15.6	**62.0**

Cash, net of debt includes £12.5m (2002: £18.7m) being the Group's share of cash and liquid resources held by joint arrangements and £12.6m (2002: £6.2m) of cash not readily available to the Group.

c) Acquisitions and disposals

	2003 £m	2002 £m
Sale of interest in subsidiary undertaking (proceeds)	**-**	1.5
Sale of interest in subsidiary undertaking (cash)	**-**	(1.2)
Investment in subsidiary undertakings	**(11.8)**	(15.8)
Investment in subsidiary undertaking (overdraft)	**(1.9)**	(9.5)
Investment in associate	**-**	(2.5)
Investment in joint ventures	**(5.3)**	(16.5)
	(19.0)	(44.0)

Acquisition of Partnerships First Limited

On 26 November 2002, the Group disposed of its 49% investment in Belan Limited and acquired 100% of the shares in Partnerships First Limited. No further consideration was paid. The Group took on net liabilities with a fair value of £6.2m including an overdraft of £1.9m. Goodwill is being amortised over 10 years.

21 Cash flow notes continued

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

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets - goodwill	1.5	(1.5)	**-**
Tangible assets	0.1	-	**0.1**
Stock and work in progress	6.1	-	**6.1**
Debtors	8.4	-	**8.4**
Deferred tax	-	1.2	**1.2**
Creditors	(16.0)	0.5	**(15.5)**
Provisions	(1.6)	(3.0)	**(4.6)**
Bank overdraft	(1.9)	-	**(1.9)**
	(3.4)	(2.8)	**(6.2)**
Goodwill arising on consolidation			**6.2**
Consideration paid			**-**

Fair value adjustments relate to management's reassessment of the carrying value of the acquisition balance sheet.

Acquisition of the business and assets of the Construction and Building Services operation of Sheffield City Council

On 31 March 2003 the Group, through its subsidiary Kier Sheffield LLP, acquired the business and assets of the Construction and Building Services operation of Sheffield City Council. Goodwill is being amortised over a period of 10 years which is the life of the partnering arrangement between the Group and Sheffield City Council.

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

	Book and fair value £m
Tangible fixed assets	**0.2**
Stock	**0.9**
Debtors	**0.4**
Creditors	**(0.6)**
Consideration paid for assets	**0.9**
Goodwill	**15.8**
Total consideration payable	**16.7**
Deferred at 30 June 2003	**(7.1)**
Paid at 30 June 2003	**9.6**

Results of Partnerships First Limited and the Sheffield business since acquisition

The following table summarises the results (including amortisation of goodwill) of Partnerships First Limited and the Construction and Building Services operation of Sheffield City Council from the date of acquisition to 30 June 2003.

	Partnerships First from 26 November 2002 £m	Sheffield from 31 March 2003 £m	Total £m
Turnover	23.9	14.1	**38.0**
Cost of sales	(31.2)	(13.2)	**(44.4)**
Gross (loss)/profit	(7.3)	0.9	**(6.4)**
Administrative expense (goodwill amortisation)	(0.4)	(0.5)	**(0.9)**
Operating (loss)/ profit	(7.7)	0.4	**(7.3)**

21 Cash flow notes continued

Acquisition of Allison Homes

On 12 September 2001 the Group acquired the business of Allison Homes. The consideration, payable wholly in cash, was £18.0m representing the value of the net assets acquired.

£15.8m was paid in the year ended 30 June 2002, and the balance deferred of £2.2m was paid in the year ended 30 June 2003.

22 Capital commitments

Group	**2003** **£m**	2002 £m
Contracted for but not provided in the accounts	**1.5**	1.5

23 Transactions with related parties

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

	2003 **£m**	2002 £m
Construction services and materials	**37.4**	29.0
Staff and associated costs	**9.4**	9.2
Management services	**2.7**	2.7
	49.5	40.9

Amounts due from related parties are analysed below:

	2003 **£m**	2002 £m
Academy Services (Tendring) Limited	**-**	0.8
ASK (Greenwich) Limited	**1.3**	-
Baglan Moor Healthcare PLC	**3.1**	1.7
Information Resources (Bournemouth) Limited	**0.8**	0.8
Prospect Healthcare (Hairmyres) Limited	**5.1**	4.7
Prospect Healthcare (Reading) Limited	**2.0**	0.6
Kier Developments Limited	**18.6**	15.8
Belan Limited	**-**	2.5
Kier Besix joint arrangement	**-**	0.1
	30.9	27.0

24 Contingent liabilities

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

Principal operating subsidiaries

Construction & Services	
Kier Regional Limited	IEI Building Services Engineers Kier Eastern Kier London Kier Northern Kier North West Kier Partnership Homes Limited Kier Scotland Kier Southern Kier Western Marriott Construction Moss Construction Wallis
Kier National Limited	Kier Build Limited Kier Construction Limited Kier International Limited Kier Plant Limited
Kier Support Services Limited	Caxton Consulting Caxton Facilities Management Limited Caxton Islington Limited Kier Building Maintenance Kier Sheffield LLP
Homes & Property	
Kier Residential Limited	Allison Homes Eastern Limited Bellwinch Homes Limited Kier Homes Limited Kier Land Limited Twigden Homes Limited
Kier Property Limited	Kier Ventures Limited Kier Whitehall Place Limited
Group Services and Infrastructure Investment	
Kier Limited	Kier Engineering Services Kier Project Investment Limited

NOTES:

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

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

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

Principal joint arrangements, joint ventures and associated undertakings

Joint arrangements

Building and/or civil engineering construction
The following joint arrangements, in which the Group participation is between 33% and 50%, operate in England:

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

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

Hong Kong	
Kier/Zen	a joint arrangement between Kier International Limited and Zen Pacific Limited
India	
Besix/Kier	a joint arrangement between Besix SA and Kier International Limited
Suriname	
Kier/CCC	a joint arrangement between Kier International Limited and Commercial Contracting Company of San Antonio, Inc.
Jamaica	
Kier/CCC	a joint arrangement between Kier International Limited and Commercial Contracting Company of San Antonio, Inc.
Mexico	
Kier/CCC	a joint arrangement between Kier International Limited and CCC Group, Inc.
Romania	
Mivan/Kier	a joint arrangement between Mivan Limited and Kier International Limited
United States	
Kier/CCC	a joint arrangement between Kier International Limited and CCC Group, Inc.

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

Principal joint arrangements, joint ventures and associated undertakings continued

Joint ventures

	Interest held
Long-term concession holding under the Private Finance Initiative	
Academy Services (Holdings) Limited	50%
ASK (Holdings) Limited	50%
Baglan Moor (Holdings) Limited	25%
Information Resources (Holdings) Limited	50%
Prospect Healthcare (Hairmyres) Holdings Limited	50%
Prospect Healthcare (Reading) Holdings Limited	50%
International construction and contract mining	
Incorporated and operating in the Hashemite Kingdom of Jordan	
The Jordan Economic Development and Trading Company Limited	50%
Commercial property development	
Kier Developments Limited	50%
Kier Warth Limited	50%

NOTES:

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

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

Group principal businesses

Kier Regional
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
R W Side *MD*
P P J Cullen
M J Desmond
I M Lawson
A D Mullins
S A Tilley
M Wright

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

M Wright *Chairman*
R P Manning *MD*
D W Stiff

Kier Eastern
53 South Brink
Wisbech
Cambridgeshire
PE14 0RA

I M Lawson *Chairman*
N W Meixner *MD*
I P Greenly
R W Kidger
C J Riley
J D Yates

Kier London
188 High Road
Loughton
Essex
IG10 1DH

M Wright *Chairman*
P J Everard *MD*
J W Abbott
D R Avery
G C Garvie
C J Riley
N R Sheppard

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

S A Tilley *Chairman*
W Kay *MD*
M A Ashton
J M Gray
E Hume
C McNeil

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

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

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

I M Lawson *Chairman & MD*
I S Butcher
D B Hodson
M F Lewis
N A Meek
M Mintram

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

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

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

R W Side *Chairman*
J J Armitage *MD*
D M Brown
G C Burridge
P H Durigan
N E Elliott
S Mason
M W Orr
G D Willoughby

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

P P J Cullen *Chairman*
P R Young *MD*
J S Edmonds
G E Knowles
J Prosper
B J Sheen
D Snell

Marriott Construction
Marriott House
Rushden
Northamptonshire
NN10 6EA

S A Tilley *Chairman*
R W Murphy *MD*
G Clark
P Hawes
J S Henke
M M Rooke

Moss Construction
96 Leckhampton Road
Cheltenham
Gloucestershire
GL53 0BP

P P J Cullen *Chairman & MD*
R C Butler
B D Clarke
B E Laenen
K A Morrant
M M Rooke
J Turner

Wallis
47 Homesdale Road
Bromley
Kent
BR2 9TN

M Wright *Chairman*
R H Bush *MD*
D Evans
J R Gilbert
P B Griffith
F Hill
P Kitchener
G J Mountier

Kier National
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman & MD*
M Dobson
R A Haller
M P Sheffield
P J Staniland

Kier Build
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
M Dobson *MD*
T P Davies
J H Fozzard
A J Greenhalgh
W G Merry
M R Whiteley

Kier Construction
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

M P Sheffield *Chairman*
R A Haller *MD*
G R Burn
P J Cave
D J Durey
P H Gray
D J Myers
N A Pates
D Rainford
A W Saul
T W Tagg

Kier International
Tempsford hall
Sandy
Bedfordshire
SG19 2BD

M P Sheffield *Chairman*
R A Haller *MD*
G R Burn
D J Durey
D J Myers
D Rainford

Group principal businesses continued

Kier Plant
The Lane
Chawston
Bedfordshire
MK44 3BH

M P Sheffield *Chairman*
I D Gordon *MD*
P J Glynn
D E Salter
N P Thorpe

Kier Support Services
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
J R Bradley *MD*
D E Angus
P Brynes
N J Chidgey
C S Porton
C Thomas

Caxton Consulting
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J R Bradley *Chairman*
N J Chidgey *MD*
J C Lunn

Caxton Facilities Management
Conway House
St Mellons Business Park
Fortran Road
St Mellons
Cardiff
CF3 0LT

J R Bradley *Chairman*
C S Porton *MD*
M Davies
M Hill
P C Owen

Caxton Islington
Ashburton Grove
Holloway
London
N7 7AA

D E Angus *Chairman*
J Nelson *MD*
J R Bradley
A Gibbons
T C Tatham
C Thomas

Kier Building Maintenance
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J R Bradley *Chairman*
D E Angus *MD*
J Nelson
D A Sheridan
T C Tatham
C Thomas

Kier Sheffield
Manor Lane Depot
Manor Lane
Sheffield
S2 1TR

D E Angus *Chairman*
D A Sheridan *MD*
J R Bradley
A R Gammage
J McCluskey
J Rooney
C Thomas

Kier Residential
The Shrubbery
Church Street
St Neots
Cambridgeshire
PE19 2BY

J Dodds *Chairman*
R W Gregory *MD*
C R W Busby
K Dixon
L E Garner
D E Mattar
M O'Farrell
R P Page
W R Reid

Allison Homes Eastern
Allison House
Banbury Close
West Elloe Avenue
Spalding
Lincolnshire
PE11 2BS

R W Gregory *Chairman*
M O'Farrell *MD*
P Adams
L E Garner
M Jessop
M Smith
A R West

Bellwinch Homes
Malcolm House
Empire Way
Wembley
Middlesex
HA9 0LW

R W Gregory *Chairman*
R P Page *MD*
L E Garner
D F Lomas
J McCormack
J M Nowak
S P White
S J Whitehead

Kier Homes
Merlin House
Mossland Road
Hillington Park
Glasgow
GS2 4XZ

R W Gregory *Chairman*
W R Reid *MD*
D Cope
A Duffy
L E Garner
L J Hope
S A McDonagh

Kier Land
The Shrubbery
Church Street
St Neots
Cambridgeshire
PE19 2BY

R W Gregory *Chairman*
K Dixon *MD*
L E Garner
I J Mitchell

Twigden Homes
The Shrubbery
Church Street
St Neots
Cambridgeshire
PE19 2BY

R W Gregory *Chairman*
K Dixon *MD*
L E Garner
J G Hodgetts
A E Page
A P Walkerdine
A B Walsh

Kier Property
Berkeley Square House
Berkeley Square
London
W1J 6BD

J Dodds *Chairman*
R W Simkin *MD*
C R Bain
C R W Busby
T Gilman
N A Turner
I P Woods

Kier Ventures
Berkeley Square House
Berkeley Square
London
W1J 6BD

J Dodds *Chairman*
R W Simkin *MD*
I P Woods

Kier Whitehall Place
Berkeley Square House
Berkeley Square
London
W1J 6BD

R W Simkin *MD*
I P Woods

Kier Project Investment
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
J A J Byrne *MD*
G Barnes
P R P George
J A N Tibbitts
J A Young

Kier Engineering Services
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
R A Haller *MD*

Financial record

Year ended 30 June	**2003 £m**	2002 £m	2001 £m	2000 £m	1999 £m
Turnover: Group and share of joint ventures	**1,445.6**	1,382.7	1,251.1	1,034.8	962.9
Group operating profit	**33.1**	24.8	19.9	15.2	10.9
Joint ventures - share of operating profit	**3.1**	1.4	1.4	0.4	1.7
Total net interest	**(0.6)**	1.1	0.6	1.3	1.2
Other	**(2.3)**	0.7	-	0.8	-
Profit before tax	**33.3**	28.0	21.9	17.7	13.8
Taxation	**(9.5)**	(7.7)	(5.9)	(4.6)	(3.9)
Profit after tax	**23.8**	20.3	16.0	13.1	9.9
Dividends	**(5.6)**	(4.8)	(4.1)	(3.5)	(3.0)
Retained profit for the year	**18.2**	15.5	11.9	9.6	6.9
Earnings per Ordinary Share					
- undiluted	**69.5p**	60.4p	48.0p	39.8p	30.6p
Dividend per Ordinary Share	**16.4p**	14.2p	12.3p	10.7p	9.3p
At 30 June	**£m**	£m	£m	£m	£m
Shareholders' funds	**93.4**	74.5	57.8	44.5	33.5
Net assets per Ordinary Share	**267.9p**	216.3p	170.3p	133.1p	102.5p

Corporate information

Directors
C R W Busby FCA FCIOB *Chairman*
J Dodds *Chief Executive*
R W Gregory ACA
D E Mattar BSc FCA
R W Side FCIOB FFB MCMI
R W Simkin BSc MRTPI
P F Berry CMG MA
S W Leathes MA FCA
P T Warry MA LLB

D E Mattar *Secretary*

Headquarters and registered office
Kier Group plc
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135 Bishopsgate
London EC2M 3UR

Barclays Bank PLC
54 Lombard Street
London EC3V 9EX

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

Stockbrokers
Panmure
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA

Financial calendar

29 November 2003	Annual General Meeting
9 December 2003	Payment of final dividend for 2002/03
March 2004	Announcement of results for the half year and interim dividend
May 2004	Payment of interim dividend
September 2004	Announcement of preliminary full year results and final dividend for 2003/04

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