News Release

KIER GROUP

18 September 2008

KIER GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR TO 30 JUNE 2008

- Underlying pre-tax profits* up 12.1% to £89.2m (2007: £79.6m).
- Underlying EPS* up 10.0% to 174.8p (2007: 158.9p)
- Full-year dividend up 10.0% to 55.0p (2007: 50.0p)
- Exceptional charges total £24.6m comprising £31.3m relating to land write-downs and £9.5m of costs relating to restructuring our housebuilding business mitigated by a profit of £16.2m from the disposal of a PFI investment
- £143.9m of net cash at 30 June 2008 (2007: £148.4m)
- Construction and Support Services combined order books at record levels
- Growth in the number of construction frameworks provides a healthy outlook for 2009
- Homes division restructured to focus on affordable housing and regeneration opportunities

*Underlying pre-tax profits and EPS are stated before amortisation of intangible assets of £2.1m (2007: £2.0m) and before exceptional charges.

Commenting on the results, John Dodds, Chief Executive said:

"The benefits of operating a hybrid model have been particularly highlighted this year as the four principal legs of our business experience different market fundamentals. Continued demand in our Construction and Support Services businesses has contrasted with the sudden and dramatic effect of the credit crunch on the demand for private housing and development properties. We have successfully extended our range of long-term contracting framework agreements, partnership programmes and negotiated and repeat business both in the public and private sectors. These relationships contributed strongly to record combined forward order books for Construction and Support Services providing us with excellent visibility of revenue for a number of years."

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Chairman's statement

I am pleased to report good results for Kier Group plc for the year to 30 June 2008. Revenue was up 11.6% to £2,374.2m (2007: £2,127.9m); underlying profits before tax and exceptional items grew 12.2% to £87.1m (2007: £77.6m) and underlying earnings per share before the amortisation of intangible assets and exceptional items increased by 10.0% to 174.8p (2007: 158.9p).

The market for our housing business has been tough with 18.6% fewer sales achieved this year compared with last year and a continuing deterioration in reservation levels. We have responded to reduced demand by restructuring the Homes division from five administrative centres to one with the regrettable but necessary 60% reduction in Homes staff numbers. This has resulted in one-off reorganisation and restructuring costs of £9.5m partially offsetting the profit arising from the sale of the Hairmyres Hospital Private Finance Initiative (PFI) investment of £16.2m during the year. In addition, we have reviewed the carrying value of residential and commercial land and work in progress at 30 June 2008 in the light of current market conditions and have written those values down by a total of £31.3m; £26.6m in Homes and £4.7m in Property.

Cash, one of our key measures particularly within the Construction division, has been strong. Net cash inflow from Group operating activities was £56.6m (2007: £114.8m) leading to year-end net cash balances of £143.9m (2007: £148.4m).

We have experienced strong order intake leading to record year-end combined order books for Construction and Support Services of £3.7bn (2007: £3.5bn). Our Homes division is experiencing a continued reduction in reservations with order books at 31 August 2008 at about half of last year's levels.

The Board proposes a 10% increase in the total dividend for the year to 55p (2007: 50p). The final dividend of 37p will be paid on 28 November 2008 to shareholders on the register on 26 September 2008 and there will be a scrip dividend alternative.

Board changes

Dick Side, who joined the Board in January 2003 as managing director of Kier Regional, will be retiring from the Board and the Group at the Company's Annual General Meeting in November 2008. Dick has served Kier with great distinction for over 25 years and his experience and knowledge have contributed greatly to our business. On behalf of the Board I would like to thank Dick for his contribution and wish him well in his retirement; he will be greatly missed by us all.

Paul Sheffield, who has been deputy managing director of Kier Regional since October 2005, will assume responsibility for all of our Construction activities following the Annual General Meeting. Other changes in responsibilities have taken effect from 1 July 2008. Ian Lawson, managing director of Support Services also took responsibility for our Homes business embracing both private housing and our Partnership Homes business. Dick Simkin, managing director of Kier Property has also taken responsibility for our PFI business together with a new business stream, Kier Asset Partnership Services, established to focus on local authority asset management and development.

These changes have been implemented to reflect changes to our business structure designed to bring our operations closer together.

Finally I should like to thank Peter Warry, who retired as chairman of the Board in December 2007, for his contribution during his ten years with the business and particularly the last three years as chairman.

Prospects

The advantages of our spread of operations and product diversification coupled with the quality and commercial capability of our staff will continue to provide stability in the current environment. Clearly 2009 is going to be a challenging year but we have a strong balance sheet, good cash resources and healthy order books and I am confident that Kier will respond positively to our changing markets as we enter 2009.

Operating and financial review

Chief executive's review

Overview

I am pleased to report another year of increased underlying profits for Kier Group for the year ended 30 June 2008. Despite the very difficult market conditions facing our Homes business the Group has achieved record levels of revenue and underlying pre-tax profit for the year to 30 June 2008. This has been driven by our Construction and Support Services businesses; each of them achieving new records of revenue and profits underpinned by higher quality contracts achieved through an increase in frameworks, negotiated and partnered work.

Our Homes division sold 1,438 homes in the year; 18.6% fewer than last year's 1,767 homes with the credit crunch having a significant impact on the second half of the financial year resulting in 35% fewer unit sales than in the same period in the previous year.

In Property we secured a number of development sales in the early part of the year which maintained our profits for 2008 at similar levels to the previous year. In our Infrastructure Investment business we sold our 50% PFI investment in the Hairmyres District General Hospital project in Scotland, Kier's first ever PFI contract. The sale completed in February 2008 and contributed a profit of £16.2m in the year. The value attributed to the equity sold implies a net present value calculated using an average discount rate of less than five per cent.

Conditions in the housing market have continued to deteriorate and we have responded to this by reorganising our Homes division; our overhead costs have been reduced and we have aligned it more closely with our Partnership Homes business to focus on regeneration and affordable housing opportunities. We have incurred exceptional restructuring charges of £9.5m against profits for the year largely representing redundancy and severance payments to around 60% of our Homes workforce. We have also examined the carrying values of our Homes and Property land and work in progress, in the light of current market conditions, and have written down certain sites and properties by a total of £31.3m; £26.6m in our Homes business, including £1.0m relating to aborted land purchases; and £4.7m in our Property business. Our priority continues to be to reduce our investment in work in progress and we have reinforced our controls over build expenditure and are limiting our land expenditure to settling land creditors, committed payments and exercising options where appropriate.

Our Construction and Support Services businesses have seen steady demand throughout the year. We have continued to focus on long-term relationships and have successfully extended our range of long-term framework agreements, partnership programmes and negotiated and repeat business both in the public and private sectors. In the UK construction market, education has continued to provide us with plenty of opportunity, much of it through the Academies Framework and frameworks with local authorities. Overseas, our markets in the Middle East are buoyant and we have secured £150m of new infrastructure projects in Dubai and continue to explore expansion opportunities in that region. In Support Services our order books have grown significantly reflecting both new contract awards and the expansion of existing contracts. These awards contributed strongly to record combined forward order books for Construction and Support Services providing us with good visibility of revenue for a number of years.

Financial performance

Revenue for the year at £2,374.2m (2007: £2,127.9m) was 11.6% ahead of last year with very strong growth from both the Construction and Support Services divisions. Underlying operating profit was 7.6% ahead of last year at £83.8m (2007: £77.9m) before taking into account the following exceptional items:

	£m
Profit on the sale of our 50% investment in Hairmyres Hospital (PFI)	16.2
Redundancy and reorganisation costs associated with our Homes division	(9.5)
Provisions against land and work in progress:	
Homes	(26.6)
Property	(4.7)
Total exceptional items	(24.6)

Underlying profit before tax increased by 12.2% to £87.1m (2007: £77.6m) before exceptional items. Adjusted earnings per share, before the amortisation of intangible assets and exceptional items, increased by 10.0% to 174.8p (2007: 158.9p).

This strong trading performance was supported by a good cash performance in the year with £56.6m generated from operating activities (2007: £114.8m) resulting in a year-end net cash position of £143.9m (2007: £148.4m). The Construction division generated £52.5m of cash (after tax and intra-Group dividends) reflecting continued strong trading performance and ended the year with another record cash balance of £413.7m (2007: £361.2m). In Homes our investment in land and work in progress continued to climb as the number of unit sales planned for the year reduced, absorbing some of our Group cash.

Group structure and strategic developments

For the year to 30 June 2008 Kier Group comprised five divisions: Construction, Support Services, Homes, Property and Infrastructure Investment. The Group's management structure and segmental analysis for reporting purposes are based on the five divisions.

The benefits of operating a hybrid model have been particularly highlighted this year as the four principal legs of our business experience different market fundamentals. Continued demand in our Construction and Support Services businesses has contrasted with the sudden and dramatic effect of the credit crunch on the demand for private housing and development properties.

In response to the reduction in demand for housing we have consolidated the operations of Allison Homes, Bellwinch Homes, Kier Homes Scotland, Kier Homes Northern and Twigden, into one, Kier Homes, at our head office in Sandy, Bedfordshire. Regrettably this has resulted in around a 60% reduction in our Homes workforce but will provide us with considerable annual overhead savings.

We have also brought Kier Homes and our affordable homes business, Kier Partnership Homes, closer together under one Board director with a remit to further develop the Group's activities in the affordable housing and regeneration arena. The affordable housing sector is one with potential for growth in revenue and profit streams for the Group in the coming years in response to the government's commitment to major public spending on affordable homes and regeneration.

Our Property division and Infrastructure Investment division now operate under one Board director together with a new business stream, Kier Asset Partnership Services, established to focus on local authority asset management and development.

These changes, which are reflected in our new management structure, are designed to bring the Group's operations closer together and provide increased efficiencies.

Business review, markets and outlook

Construction

The Construction division comprises Kier Regional and Kier Construction. Kier Regional encompasses our ten regional contracting businesses, major building projects and, for the year to 30 June 2008, our affordable housing contracting business. Kier Construction represents the Group's infrastructure and overseas operations which include civil engineering, infrastructure, rail, mining and remediation capabilities.

Overall revenue increased by 17.1% to a record £1,653.2m for the year (2007: £1,411.2m) with good growth in both Kier Regional and Kier Construction. Operating profit increased by 74.9% to £38.3m (2007: £21.9m) and the operating margin increased from 1.6% last year to 2.3%, well ahead of our target for this division in 2008.

Cash generation, one of our key construction performance measures, has been extremely strong again this year, with cash balances at 30 June 2008 £52.5m higher than the previous year-end (after tax and intra-Group dividends) and average balances for the year £59m ahead at £378m. Contract awards were strong giving an order book at 30 June 2008 of £1,700m (2007: £1,710m).

Kier Regional business review

The performance of our Kier Regional businesses was excellent reflecting the high quality order books carried forward at the beginning of the financial year, and we achieved further advancement in our key performance measures of revenue, profit margins and cash balances. Revenue was 16.8% ahead of 2007 at £1,413.2m; profit margins, supported by an increased proportion of negotiated and partnered work, again increased; and the cash performance has been strong with average cash balances around £54m higher than last year, ending the year at another record of £377m (2007: £336m).

The level of awards achieved through framework and partnership agreements together with negotiated and two-stage tenders, grew to around 80% of the total work secured in the year (2007: 64%) and, together with the low average value of our contracts at £4.7m (2007: £4.7m), they continue to provide us with a high quality, sustainable order book with an attractive risk profile.

49% of our total awards arose from private sector clients (2007: 55%) and 51% from the public sector (2007: 45%). In the private sector commercial property, retail and hotel & leisure projects provided a good spread of work and in the public sector 64% of our awards were through framework agreements largely for education, prison and healthcare projects.

Demand for commercial property continued to be strong again this year representing 22% of our awards partly through Kier Property projects as well as awards through our long-term relationships with Land Securities Trillium, British Land, Goodman and SEGRO. The retail market continued to be buoyant, particularly for food retailers, representing around 11% of our awards largely through our framework agreements and partnerships with Tesco, Sainsbury's and Morrisons. During the year we were also appointed by BAA plc as one of its commodity build framework contractors aimed at delivering a total of £650m of projects over five years, including car parks, refurbishment works and asset renewals at Heathrow, Gatwick and a number of other UK airports.

In the public sector education continues to be buoyant with orders this year representing 28% of total awards, largely through framework agreements and partnerships with government, local authorities and individual universities. Our involvement in the Contractors' Framework for Academies and Other Educational Facilities is beginning to deliver work, with the award of the £27m Milton Keynes Academy during the year and several further awards imminent. We have also secured the first contract through the Primary Capital Investment Programme for the London Borough of Barnet.

Local authority frameworks continue to provide us with a significant volume of work in the education sector including the Improvement & Efficiency SE Partnership of councils in the south and south east of England, our partnership agreement with South Lanarkshire Council and multiple local authority frameworks with various councils across the country. A great success in the year was being appointed preferred bidder by Kent County Council, as part of the Land Securities Trillium consortium, to deliver £100m worth of schools in the first wave of Kent's Building Schools for the Future (BSF) programme with the opportunity for a further £150m of work in future waves.

Health projects represented 8% of our awards in the year. The seven-year NHS ProCure 21 procurement framework, of which we are a part, entered its fifth year and has provided us with £326m worth of healthcare work to date including 21 projects awarded this year with a combined value of £96m. New construction, extensions and refurbishment work at prisons for the Ministry of Justice Custodial Properties' Framework has continued to provide a good level of activity representing around 7% of total awards in the year. We delivered over 850 prison spaces during the year and are progressing with a further 486 places.

In the affordable housing sector we completed 723 affordable housing units (2007: 850 units) and were awarded approximately £125m of new contracts (2007: £98m) including a £20m scheme in Birmingham. This sector has the potential to increase markedly on the back of the government's committed investment of £8bn to provide 70,000 affordable homes per annum by 2010.

Kier Construction business review

Kier Construction saw a 19.0% increase in its revenue in the year to £240.0m (2007: £201.3m) through a combination of projects in the rail, energy and water sectors, our opencast coal mining business in Scotland and overseas projects, particularly in Dubai and Romania.

The energy sector continues to provide us with good opportunities. During the year we successfully completed our work to a major LNG receiving terminal at South Hook in Milford Haven. Good progress was made on two new CCGT power stations at the Langage Energy Centre, Plymouth for Alstom Power and at Immingham CCGT power station on the Humber. These projects add to our considerable experience gained in successfully completing similar works on 12 other CCGT power stations over the past ten years.

At our privately owned opencast coal mine, Greenburn in East Ayrshire, we have now extracted 2.6m tonnes of coal since production began in 2004. We expect to continue mining here until 2013 and have forward sold 70% of the remaining 2.0m tonnes of anticipated coal at favourable prices.

As part of our five-year infrastructure framework for the renewal of rail structures for Network Rail in East Anglia, we successfully, and in record time, completed a rail bridge replacement project at Ely in December 2007 following a freight train derailment in June 2007 which caused extensive damage to the existing 140-year-old structure.

Overseas, our markets in the Middle East are buoyant. We have secured £150m of new infrastructure projects in Dubai and continue to explore expansion opportunities in that region. In Saudi Arabia we are establishing a new phosphate mine development in joint venture with our local partners and we start mining in 2009 for a period of eight years. In Romania we have had a busy year on water infrastructure projects as well as major retail and residential schemes. In the Caribbean we have completed our successful work on the transport interchange in Kingston, Jamaica and the Norman Manley airport extension is nearing completion.

Construction markets and outlook

Our framework agreements in both the public and private sectors continue to provide us with a steady stream of work which will help to safeguard us from uncertainties in the commercial property and private residential construction markets. We were delighted to have been awarded further projects under the Academies framework during the summer of 2008 including the £20m Norwich Academy with a potential to negotiate a further similar size academy at Kings Lynn and we are preferred bidder on the £18m Samworth Academy in Mansfield and One School Pathfinder Projects in Shropshire (£25m), the Wirral (£23m) and Sefton (£42m). We are also bidding for a further £200m of similar education opportunities.

We are one of three contractors chosen by Argent for their £2bn central framework contract at Kings Cross which includes around 8.0m sq ft of mixed-use development over a 10 to 15-year period.

In the energy sector our track record continues to provide us with more work and we were delighted to have been awarded a £95m contract to provide civil engineering works for a 1200 MW CCGT power station at West Burton, Nottingham for EDF Energy. Opportunities also exist in the waste sector and we are preferred bidder on a waste treatment plant in Wakefield for VT. In the nuclear sector we have been selected by AWE as one of two contractors to develop a portfolio of work valued at £200m at Aldermaston. We are expanding our presence in Dubai as significant opportunities come forward in the infrastructure and drainage sector where we have a long track record.

We enter the new financial year with strong construction order books of £1,700m (2007: £1,710m) and a healthy pipeline of 'probable' awards. Frameworks and long-term partnerships will help to insulate us from longer-term uncertainty in the construction market and together with our wide geographic coverage and low average contract size we can view our construction marketplace with confidence.

Support Services

Support Services comprises five main business streams: Kier Building Maintenance, which provides both reactive and planned maintenance largely to local authorities; Kier Managed Services, providing facilities management services to public and private sector clients; Kier Building Services Engineers, our specialist mechanical and electrical (M&E) design, installation and maintenance business; Kier Street Services, providing services within the waste and recycling, street scene and grounds maintenance sectors; and Kier Plant which hires construction plant to Kier Group companies and external clients.

Support Services business review

Revenue in Support Services rose 24.8% to £393.7m (2007: £315.5m). Operating profit, before deducting the amortisation of intangibles of £2.1m, increased by 27.9% to £15.6m (2007: £12.2m) at an improved margin of 4.0% (2007: 3.9%) in line with our target for the year. Once again, the cash position within the division was strong with £1.6m generated to give year-end cash balances of £17.4m (2007: £15.8m) which includes our investment in plant of £21.1m. The order books have grown significantly standing at £2,023m at 30 June 2008 (2007: £1,788m), reflecting both new contract awards and the expansion of existing contracts.

The largest and fastest growing business stream is Building Maintenance, with revenue in the year up 33.4% to £288.7m (2007: £216.4m). New contracts worth £460m were secured during the year including Newham, Hammersmith & Fulham and Stoke-on-Trent. The Stoke contract was awarded in February 2008, in partnership with Stoke-on-Trent City Council, to maintain its 20,000 housing stock and carry out works through the Decent Homes programme. This contract provides us with annual revenue of £40m for ten years, extendable for a further five years. It also provides a great opportunity to attract additional work both through the contract and through third party projects using the resources available in the partnership. In June we were awarded a contract with East Durham Homes to carry out planned maintenance and adaptation work on their 8,800 homes in Peterlee, County Durham. This contract will provide revenues of £5.5m per annum over four years and brings the total number of public sector homes we look after in England to 220,000.

A major challenge in the north during the first part of the year was our response to the devastating flooding that struck Yorkshire and Humberside in June 2007 which saw our Hull, Sheffield and Leeds Building Maintenance teams providing emergency repairs and maintenance and the subsequent clearing-up operations. Kier Sheffield LLP, our partnership with Sheffield City Council now in its fifth year, still represents the largest revenue generator at £111.5m (2007: £107.1m) and continues to expand with regional housing association work and capital works for Sheffield education department, including completing the build of the new Sharrow School in September 2007.

In the south, Kier Islington continues its efficiency improvements including co-locating its client services with the council's as well as setting up a single resolution team with the council to deal with any customer complaints. Work commenced with Harrow Council on 1 July 2007 to undertake a full range of responsive maintenance and Decent Homes upgrades. Worth £125m over five years, this gives us the opportunity to provide additional capital projects, such as building schools and a leisure centre, with £60m of such work already secured and being carried out by Kier Regional. In Harlow, an award in February 2007 and one which includes Kier Street Services, improvements have been made to the service which is now rated 'good' compared with the 'poor' rating in 2004.

After a period of consolidation, Kier Managed Services has won three significant new contracts this year. In Northampton we are to provide facilities management services and life cycle replacement for a PFI scheme for the provision of mental health services to Northamptonshire Healthcare NHS Trust. At the University of Glamorgan, where we have provided facilities management services for over ten years, we won the contract to provide full facilities management services for the newly built campus for the Cardiff School of Creative & Cultural Industries. We also secured a £7.0m per annum facilities contract for Legal & General during the year.

We have had a strong year in Kier Plant and have continued our investment in upgrading our fleet. This has included the purchase of eight new tower cranes, bringing the inventory to 102 such cranes, a 70-tonne crawler crane, 26 new telehandlers and 710 new site accommodation units, including our own trademarked 'Green Space' and 'Green Step' eco-cabins, bringing our holding to 3,600 units.

Support Services markets and outlook

There are continuing opportunities both with local authorities and the private sector for our Managed Services business.

In Building Maintenance our order book gives us long-term visible earnings at consistent margins extending beyond 2017. The long-term contracts and relationships allow us to expand our activities through organic growth and provide opportunity for other Kier businesses to participate. There is a strong pipeline of new contracts to bid including a £40m per annum ten-year contract for North Tyneside on which we are short-listed as one of two bidders.

We have a strong track record of delivery on the high value building maintenance contracts which places us in an excellent position when tendering for these large contracts.

Homes

Conditions in the housing market started reasonably well for the first half of the year but we experienced a significant downturn in demand for houses as we entered the second half of the year initially caused by a reduction in mortgage availability and the tightening up of mortgage terms. The market continued to deteriorate during the last quarter of the year with reservations rates falling significantly year on year. Despite this, Kier Residential sold 1,438 homes in the year (2007: 1,767 homes) representing a fall of 18.6% over the entire year compared with last year. We sold 827 units in the first half of the financial year (2007: 819 units) and 611 units in the second half, 35% fewer than the second half of the previous financial year.

Average selling prices were lower for the year at £168,800 (2007: £179,300) reflecting a higher proportion of the lower value Kier Homes Northern properties, an increased proportion of social housing units than the previous year (18% compared with 16% in 2007) as well as some price discounting. Revenue of £242.8m was generated from housing sales (2007: £316.8m) and there were no land disposals (2007: revenue of £8.3m from land sales). Operating profit from housing sales declined by 36.0% to £30.5m (2007: £47.6m) at a reduced margin of 12.6% (2007: 15.0%).

We incurred exceptional costs of £9.5m relating to redundancy and reorganisation which will reduce our costs by £17m on an annual basis. We have also examined the carrying values of our land and work in progress and have written down land values by £25.6m together with a further £1.0m relating to aborted land purchases, representing 5.7% of our residential land and work in progress.

During the year £88.2m was spent on selective land purchases (2007: £87.5m) and at 30 June 2008 the land bank contained 6,233 units (2007: 6,465 units). In addition to land with planning consent, we hold approximately 12,000 plots of strategic land (2007: 11,500 plots) mostly under option.

Our sites are principally located outside major cities and exclude high-rise flats. In Lincolnshire, Cambridgeshire and Bedfordshire our sites are principally greenfield housing developments. In the South East and Scotland, whilst we have a number of developments with apartments, they are typically low-rise. Nevertheless our work in progress has increased and we are focused on reducing our stock swiftly given the current market conditions.

Homes markets and outlook

We are very cautious on the outlook for 2009 hence our actions to reduce our cost base. Gross reservations for the first two months of the new financial year are around 76% below the same period last year reflecting continued tightening of mortgage availability and a general slow down in demand hence our order books at 31 August contain 49% fewer units than at the same time last year.

We have reinforced our controls over build expenditure and work in progress and have limited land expenditure to settling land creditors, committed payments and exercising options until the outlook for the housing market becomes clearer.

Property

Our property development activities cover commercial offices, industrial, retail and mixed-use sectors. It operates through Kier Ventures, our wholly owned subsidiary, and Kier Developments, a 50% joint venture with Bank of Scotland.

Property business review

Despite tough market conditions the Property division recorded another successful and profitable year. Revenue increased from £61.3m last year to £69.6m with operating profit, before property write-downs, at similar levels to last year of £12.0m (2007: £12.1m) representing a margin of 17.2% (2007: 19.7%). The commercial property market is more difficult than we have seen for some time with exit yields shifting upwards and occupiers taking time to make decisions. Consequently we have examined the carrying values of our developments and work in progress and have made exceptional provisions against the values amounting to £4.7m, representing 4.8% of the book value of our developments, predominantly against properties acquired in the last two years.

Notable sales during the year included the 150,000sq ft business park headquarters for Electronic Data Systems in Milton Keynes, constructed by Kier Regional and sold to Prudential during the year. Within the Bank of Scotland joint venture a successful 22-unit 'Trade City' industrial park was sold to CBRE Investors and a number of smaller unit sales were also completed from our sites in Weybridge, Enfield and Chelmsford.

Excellent progress is being made at the new 70,000sq ft UK Supreme Court for the Ministry of Justice where Wallis, the Group's specialist refurbishment business, is on target to complete the work in the spring of 2009. This will create a highly marketable 30-year income stream with a government-backed covenant.

Our strategic partnership with Invista continues to strengthen. At Reading terms have been agreed for Yell to occupy seven of the ten floors of the 219,000sq ft building which is now under construction with Kier Build. On the remaining two sites tenant interest is being pursued to complete the development of this gateway site.

In July 2008 we formed a new joint venture with Network Rail. This ground-breaking partnership initially gives us the opportunity to develop seven station-related sites in London and the south-east identified for regeneration. These sites include east Maidstone, Guildford, Epsom, Twickenham, Walthamstow, Enfield and Wembley. Over a period of ten years the sites will generate a gross development value of £500m and be supplemented at a later stage by further opportunities from the Network Rail property portfolio.

At Western International Market, near Heathrow, construction of a new market for the fruit and vegetable traders has now been completed and the site, previously occupied by the traders, has been released for redevelopment and a pre-sale or pre-let is currently being sought.

Following on from our successful headquarters scheme for National Trust, the Ordnance Survey headquarters development in Southampton recently received planning permission and a start on site is anticipated by late 2008. On completion the development will release 25 acres of land available for a major mixed-use scheme.

Property markets and outlook

The forthcoming year will provide the business with new challenges not seen for some years; however Kier Property's low risk strategy of largely non-speculative development will ensure that we are not exposed to large holdings of unoccupied buildings and that the portfolio is sufficiently robust to counter any cyclical movements. Within our current development portfolio we have the ability to enhance value through the planning process and, whilst this may not crystallise short-term profit, it will provide a strong foundation to both protect and enhance the asset base of the business.

By forming long-term partnerships in the development sector, such as the recent Network Rail joint venture scheme, we can look forward to a secure business stream spread over many years into the future. We are also examining the Group's current residential land holdings with the aim of identifying potential opportunities for changes in planning to create value through alternative development including commercial use.

Infrastructure Investment

Kier Project Investment (KPI) manages the Group's PFI interests. The core strength of KPI is its ability to bring together the diverse range of skills and resources within the Group and combine these with a financial package to deliver high quality buildings and services to meet the needs of the public sector.

Infrastructure investment business review

The year to 30 June 2008 has been a productive time for KPI with the successful disposal of an investment and the completion of construction on several projects. At the year-end following the sale of an investment during the year, our portfolio of PFI projects totalled 12, with all but one completed and operational. Our committed equity investment in PFI schemes stands at £18.4m (2007: £22.8m) of which £14.1m has been invested to date. The most significant milestone for the division was the sale of our 50% share in our first PFI project undertaken, Hairmyres Hospital in Scotland. The sale gave us proceeds of £13.8m which, when combined with a refinancing gain deferred from August 2004, generated a profit of £16.2m. The value attributed to the equity sold implies a net present value calculated using an average discount of less than 5%.

Three projects reached construction completion during the year, with a fourth due for completion in the autumn of 2008. Significantly, the delivery of all of these schemes has involved our Regional construction companies and three of them involve Kier Managed Services as facilities management providers. Completed projects include the Oldham Schools PFI project involving two 1,500-place secondary schools; the Garrett Anderson Centre at Ipswich Hospital and the highly successful North Kent Police headquarters. Good progress has been made on the six new schools under the Norfolk County Council PFI schools scheme with three completed in 2006 and 2007 and the final phase due for completion in the autumn of 2008.

Infrastructure Investment markets and outlook

The PFI procurement route continues to provide us with opportunities for further investment. Whilst we have a firm anchor in the education, healthcare and local authority sectors of the PFI market, we are exploring other opportunities including fire stations, waste handling centres and student accommodation.

The remaining committed investment of £18.4m has a directors' valuation of approximately £40m at 30 June 2008 based on discounting the cash flows from investments in financially closed projects at a rate of 7%. The secondary market for investments remains good and we are exploring other potential disposals.

Health & Safety

In 2008 Kier Group businesses have diligently focused on getting back to basics to ensure we create and maintain safe sites. This simple approach is having a significant effect on our safety performance with some spectacular results across our sites including seven million accident-free man hours in Dubai. The progress made last year on people issues has helped shape our current strategy which aims to ensure a practical safety approach that facilitates safe working process on site. Our Accident Incidence Rate of 588 per 100,000 staff and subcontractors (2007: 640) compares favourably with a Health & Safety Executive (HSE) target rate of 865 per 100,000.

People

On behalf of the Board I would like to thank all of our people for their hard work over the last 12 months and for their continuing commitment and support in making Kier the successful business it has become. 2008 has been a difficult year for some parts of the business and I suspect 2009 will be no easier. It is at times such as these that the businesses and teams need to pull together even more strongly to deliver the Group's goals and objectives. We have many skilled, talented and committed people in this Group and I am confident that, together, we will successfully steer our way through these uncertain times.

Objectives and prospects

We are reporting at a time of increasing uncertainty in the UK economy with the credit crunch having a major effect on our Homes and Property businesses and the recent banking crisis sending shockwaves throughout the global economy. However our Construction and Support Services businesses are busy, our order books are strong and, importantly, our enquiry levels remain high underpinned by our many framework agreements.

2009 is going to be a difficult year but we have skilled management teams in place in all of our businesses, many of whom have seen economic downturn in the past and have the experience to respond promptly to change as it arises. We have a strong balance sheet, good cash resources and a commitment to succeed. All of which will stand us in good stead over the next few years.

Financial review

Accounting policies

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

Underlying profit before tax and exceptional items

Underlying profit before tax and exceptional items increased by 12.2% to £87.1m (2007: £77.6m). This is stated after deducting joint venture tax of £1.1m (2007: £1.4m) and before minority interests of £1.0m (2007: £0.8). The share of minority interests relates to Sheffield City Council's and Harlow Council's share of profits from our building maintenance outsourcing contracts.

Exceptional items

Exceptional items amounting to a charge of £24.6m, before tax, were incurred in the year as follows:

	£m
Profit on the sale of our 50% investment in Hairmyres Hospital (PFI)	16.2
Redundancy and reorganisation costs associated with our Homes division	(9.5)
Provisions against land and work in progress:	
Homes	(26.6)
Property	(4.7)
Total exceptional items	(24.6)

During the year we sold our investment in a PFI asset, Hairmyres Hospital in Scotland, for a consideration of £13.8m which, when combined with a refinancing gain deferred from August 2004, resulted in a profit on disposal of £16.2m. This represents a discount rate of less than 5%.

The exceptional costs relating to the restructuring of the Homes division includes the cost of consolidating five administrative offices into one and the redundancy costs associated with 390 employees representing around 60% of our Homes workforce. These measures have been taken to reflect the continuing deterioration of the housing market which has also caused us to examine the carrying values of our land and work in progress. Consequently we have written down our residential land by £26.6m (including £1.0m relating to aborted land purchases). We have also reviewed the carrying values of our property development portfolio and have taken write-downs of £4.7m, £1.5m of which relates to our wholly owned business and £3.2m relates to properties held in our joint venture with the Bank of Scotland.

Taxation

The Group's effective tax rate, including joint venture tax on joint venture profits but excluding exceptional items, is in line with last year at 29.0% which is marginally below the statutory rate of 29.5%. Exceptional items have been taxed at the statutory rate except for the profit on disposal of the PFI asset as £8.3m was attributed to a refinancing gain which was taxed in an earlier accounting period.

Interest and cash

The interest received for the year comprises the following:

	Year to 30 June	
	2008	2007
	£m	£m
Group interest receivable	**9.8**	6.9
Interest payable	**(2.2)**	(2.6)
Unwinding of discount	**(4.3)**	(4.6)
Share of joint venture interest	**(2.4)**	(2.9)
	0.9	(3.2)

The Group interest receivable includes that arising from average treasury balances of £95m for the year (2007: £65m). The charge of £4.3m relating to unwinding of discounts includes £3.1m relating to land creditor balances (2007: £3.9m).

Net cash at 30 June 2008 was £143.9m (2007: £148.4m) after deducting £30.2m relating to loan notes. £56.6m was generated from operations during the year after deducting £6.0m (2007: £11.0m) in respect of special pension contributions made during the year.

Cash, net of debt, at 30 June 2008 includes £44.9m (2007: £44.3m) of cash which is not generally available for Group purposes, including that held by joint arrangements, overseas and other cash not readily available to the Group. The liquid cash position is affected by seasonal, monthly and contract-specific cycles. In order to accommodate these flows the Group maintains a range of bank facilities of £115.0m comprising £12.5m of overdraft facilities and £102.5m of committed, revolving credit facilities all on an unsecured basis. £10.0m of this expires in January 2009 and £92.5m expires in January 2011.

Treasury policy and risk management

The Group has bank facilities amounting to £115m and long-term debt of £30m managed by the centralised treasury function.

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

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

Balance sheet and total equity

The balance sheet at 30 June 2008 includes intangible assets of £13.4m of which £8.2m relates to building maintenance contracts including £5.7m for the outsourcing contract at Sheffield which is being amortised over ten years, £0.7m for Harlow and £1.8m for Stoke which was acquired during the year.

Total equity has increased marginally during the year to £183.1m (2007: £183.0m).

Inventories

An analysis of inventories is given below:

	Year to 30 June	
	2008	2007
	£m	£m
Residential land	**276.0**	273.5
Residential work in progress	**161.7**	112.3
Property land and work in progress	**24.8**	30.2
Other work in progress	**53.9**	44.1
	516.4	460.1

The Group conducted a review of the carrying value of its housebuilding land at 30 June 2008 in accordance with normal practice and accounting standards. The review was carried out on a site-by-site basis using appraisals incorporating forecast sales rates and selling prices that reflect trading conditions and paying particular attention to sites with low sales rates. As a result we recognised an impairment of the housing land bank of £25.6m together with costs associated with aborted land purchases of £1.0m. This represents 5.7% of our Residential land and work in progress.

The Group also reviewed the land and work in progress held within its Property business taking into account the market place and in particular increasing yields which identified the need for an impairment of £3.2m (our share) in our joint venture business and £1.5m in our wholly owned business. These write-downs represent 4.8% of development book values.

Pensions

The Group participates in two principal schemes, the Kier Group Pension Scheme, which includes a defined benefit section, and a defined benefit scheme on behalf of its employees in Kier Sheffield LLP. The financial statements reflect the pension scheme deficits and surpluses calculated in accordance with IAS 19. At 30 June 2008 the net deficit under the Kier Group Pension Scheme was £32.9m (2007: £21.9m). The market value of the scheme's assets was £538.4m (2007: £506.7m) and the net present value of the liabilities was £584.1m (2007: £537.3m). The increase in liabilities represents an increase in salary inflation and experience losses taken in the year.

We have been addressing the issue of pensions over a period of several years and in the last three years have contributed £60.5m in special contributions including £6.0m during the year to 30 June 2008 (2007: £11.0m). The special contributions have no effect on the income statement for the year, but are shown as a reduction in cash and a reduction in the pension deficit.

Under the scheme relating to Kier Sheffield LLP there was a net deficit of £0.7m for the year (2007: surplus of £4.9m).

Pension charges of £7.6m (2007: £11.7m) have been made to the income statement in accordance with IAS 19.

Consolidated income statement
for the year ended 30 June 2008

	Notes	Before exceptional items 2008 £m	Exceptional items* 2008 £m	Total 2008 £m	2007 £m
Revenue					
Group and share of joint ventures	2	**2,374.2**	**-**	**2,374.2**	2,127.9
Less share of joint ventures		**(41.8)**	**-**	**(41.8)**	(62.5)
Group revenue		**2,332.4**	**-**	**2,332.4**	2,065.4
Cost of sales		**(2,122.1)**	**(28.1)**	**(2,150.2)**	(1,874.6)
Gross profit		**210.3**	**(28.1)**	**182.2**	190.8
Administrative expenses		**(127.4)**	**(9.5)**	**(136.9)**	(115.9)
Share of post tax results of joint ventures		**0.9**	**(2.3)**	**(1.4)**	3.0
Profit on disposal of joint venture		**-**	**16.2**	**16.2**	-
Profit from operations	2	**83.8**	**(23.7)**	**60.1**	77.9
Finance income		**9.8**	**-**	**9.8**	6.9
Finance cost		**(6.5)**	**-**	**(6.5)**	(7.2)
Profit before tax	2	**87.1**	**(23.7)**	**63.4**	77.6
Income tax	4a	**(24.5)**	**9.3**	**(15.2)**	(21.3)
Profit for the year		**62.6**	**(14.4)**	**48.2**	56.3
Attributable to:					
Equity holders of the parent		**61.6**	**(14.4)**	**47.2**	55.5
Minority interests		**1.0**	**-**	**1.0**	0.8
		62.6	**(14.4)**	**48.2**	56.3
Earnings per share	6				
– basic		**170.6p**	**-**	**130.7p**	155.0p
– diluted		**169.2p**	**-**	**129.7p**	152.9p
Adjusted earnings per share (excluding the amortisation of intangible assets)	6				
– basic		**174.8p**			158.9p
– diluted		**173.4p**			156.7p

*Exceptional items relate to restructuring costs, land and work in progress write-downs and the profit on disposal of a joint venture (note 3)

Consolidated statement of recognised income and expense
for the year ended 30 June 2008

	Notes	2008 £m	2007 £m
Foreign exchange translation differences		**0.7**	(0.4)
Fair value movements in cash flow hedging instruments		**(6.2)**	13.1
Actuarial (losses)/gains on defined benefit pension schemes		**(33.5)**	22.5
Deferred tax on items recognised directly in equity	4b	**11.2**	(12.1)
Income and expense recognised directly in equity		**(27.8)**	23.1
Profit for the year		**48.2**	56.3
Total recognised income and expense for the year		**20.4**	79.4
Attributable to:			
Equity holders of the parent		**19.4**	78.6
Minority interests		**1.0**	0.8
		20.4	79.4

Consolidated balance sheet
at 30 June 2008

	Notes	2008 £m	2007 £m
Non-current assets			
Intangible assets		**13.4**	13.6
Property, plant and equipment		**92.2**	83.4
Investment in joint ventures		**39.9**	40.7
Retirement benefit surplus		**-**	6.8
Deferred tax assets		**13.1**	8.7
Other financial assets		**0.1**	0.2
Trade and other receivables		**17.4**	10.3
Non-current assets		**176.1**	163.7
Current assets			
Inventories		**516.4**	460.1
Other financial assets		**0.9**	0.3
Trade and other receivables		**361.3**	319.4
Income tax receivable		**1.9**	-
Cash and cash equivalents		**174.1**	178.6
Current assets		**1,054.6**	958.4
Total assets		**1,230.7**	1,122.1
Current liabilities			
Trade and other payables		**(914.2)**	(791.8)
Tax liabilities		**(2.6)**	(3.4)
Provisions		**(12.0)**	(2.4)
Current liabilities		**(928.8)**	(797.6)
Non-current liabilities			
Long-term borrowings		**(30.2)**	(30.2)
Trade and other payables		**(13.5)**	(50.0)
Retirement benefit obligations		**(46.7)**	(30.6)
Provisions		**(21.9)**	(20.2)
Deferred tax liabilities		**(6.5)**	(10.5)
Non-current liabilities		**(118.8)**	(141.5)
Total liabilities		**(1,047.6)**	(939.1)
Net assets	2	**183.1**	183.0
Equity			
Share capital		**0.4**	0.4
Share premium		**34.4**	27.0
Capital redemption reserve		**2.7**	2.7
Retained earnings		**142.0**	145.7
Cash flow hedge reserve		**2.6**	7.0
Translation reserve		**0.1**	(0.6)
Equity attributable to equity holders of the parent		**182.2**	182.2
Minority interests		**0.9**	0.8
Total equity	7	**183.1**	183.0

Consolidated cash flow statement

for the year ended 30 June 2008

	Notes	**2008 £m**	2007 £m
Cash flows from operating activities			
Profit before tax		**63.4**	77.6
Non cash exceptional items			
Restructuring costs		**8.1**	-
Land and work in progress write-downs		**30.4**	-
Profit on disposal of joint venture		**(16.2)**	-
Other adjustments			
Share of post tax trading profits from joint ventures		**(0.9)**	(3.0)
Normal contributions to pension fund in excess of pension charge		**(4.6)**	(2.9)
Share-based payments charge		**1.0**	3.9
Amortisation of intangible assets		**2.1**	2.0
Depreciation charges		**16.4**	15.0
Profit on disposal of property, plant & equipment		**(1.0)**	(0.7)
Net finance cost		**(3.3)**	0.3
Operating cash flows before movements in working capital		**95.4**	92.2
Special contributions to pension fund		**(6.0)**	(11.0)
Increase in inventories		**(84.3)**	(20.1)
Increase in receivables		**(48.7)**	(54.4)
Increase in payables		**97.8**	104.9
Increase in provisions		**2.4**	3.2
Cash inflow from operating activities		**56.6**	114.8
Dividends received from joint ventures		**0.8**	0.6
Interest received		**9.6**	6.8
Income taxes paid		**(18.4)**	(16.9)
Net cash generated from operating activities		**48.6**	105.3
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		**2.5**	1.5
Proceeds from sale of joint venture		**13.6**	-
Purchases of property, plant & equipment		**(27.5)**	(19.7)
Acquisition of subsidiaries, including net borrowings acquired	8	**(16.5)**	(28.0)
Investment in joint ventures		**(2.9)**	(7.7)
Net cash used in investing activities		**(30.8)**	(53.9)
Cash flows from financing activities			
Proceeds from the issue of share capital		**-**	3.1
Purchase of own shares		**(5.5)**	(8.7)
Interest paid		**(2.3)**	(2.6)
Dividends paid to equity holders of the parent		**(13.6)**	(5.9)
Dividends paid to minority interests		**(0.9)**	-
Net cash used in financing activities		**(22.3)**	(14.1)
(Decrease)/increase in cash and cash equivalents		**(4.5)**	37.3
Opening cash and cash equivalents		**178.6**	141.3
Closing cash and cash equivalents		**174.1**	178.6
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash and cash equivalents		**(4.5)**	37.3
Increase in long-term borrowings		**-**	(0.1)
Opening net funds		**148.4**	111.2
Closing net funds		**143.9**	148.4
Net funds consist of:			
Cash and cash equivalents		**174.1**	178.6
Long-term borrowings		**(30.2)**	(30.2)
Net funds		**143.9**	148.4

Notes to the consolidated financial statements

1. Accounting policies

There have been no significant changes to the accounting policies in these financial statements. They have been prepared in accordance with International Reporting Standards as adopted by the EU.

2 Revenue, profit and segmental information

For management purposes the Group is organised into five operating divisions, Construction, Support Services, Homes, Property and Infrastructure Investment. These divisions are the basis on which the Group reports its primary segmental information.

Year to 30 June 2008	Construction £m	Support Services £m	Homes £m	Property £m	Infrastructure Investment £m	Centre £m	Group £m
Revenue							
Group and share of joint ventures	**1,653.2**	**393.7**	**242.8**	**69.6**	**14.9**	**-**	**2,374.2**
Less share of joint ventures	(1.2)	-	-	(26.9)	(13.7)	-	**(41.8)**
Group revenue	1,652.0	393.7	242.8	42.7	1.2	-	**2,332.4**
Profit							
Group operating profit	38.3	13.5	30.2	9.3	(1.1)	(7.3)	**82.9**
Share of joint ventures' operating profit	-	-	0.3	2.7	1.4	-	**4.4**
Group and share of joint ventures	**38.3**	**13.5**	**30.5**	**12.0**	**0.3**	**(7.3)**	**87.3**
Share of joint ventures – finance cost	-	-	-	(1.2)	(1.2)	-	**(2.4)**
– tax	-	-	(0.1)	(1.0)	-	-	**(1.1)**
Profit from operations before exceptional items	**38.3**	**13.5**	**30.4**	**9.8**	**(0.9)**	**(7.3)**	**83.8**
Restructuring costs	-	-	(9.5)	-	-	-	**(9.5)**
Land and work in progress write-downs[1]	-	-	(26.6)	(3.8)	-	-	**(30.4)**
Profit on disposal of joint venture	-	-	-	-	16.2	-	**16.2**
Profit from operations	**38.3**	**13.5**	**(5.7)**	**6.0**	**15.3**	**(7.3)**	**60.1**
Finance income/(cost)	20.7	0.7	(17.7)	(1.9)	1.6	(0.1)	**3.3**
Profit before tax	**59.0**	**14.2**	**(23.4)**	**4.1**	**16.9**	**(7.4)**	**63.4**
Balance sheet							
Investment in joint ventures	0.1	-	-	23.6	16.2	-	**39.9**
Other assets	382.5	107.8	462.9	31.8	0.5	31.2	**1,016.7**
Total liabilities	(695.1)	(106.1)	(98.1)	(8.4)	(5.1)	(104.6)	**(1,017.4)**
Net operating assets/(liabilities)	(312.5)	1.7	364.8	47.0	11.6	(73.4)	**39.2**
Cash, net of debt	413.7	17.4	(254.0)	(27.0)	2.1	(8.3)	**143.9**
Net assets	**101.2**	**19.1**	**110.8**	**20.0**	**13.7**	**(81.7)**	**183.1**

[1] Property land and work in progress write-downs are shown net of joint venture tax of £0.9m

Year to 30 June 2007	Construction £m	Support Services £m	Homes £m	Property £m	Infrastructure Investment £m	Centre £m	Group £m
Revenue							
Group and share of joint ventures	**1,411.2**	**315.5**	**325.1**	**61.3**	**14.8**	**-**	**2,127.9**
Less share of joint ventures	-	-	-	(48.7)	(13.8)	-	**(62.5)**
Group revenue	1,411.2	315.5	325.1	12.6	1.0	-	**2,065.4**
Profit							
Group operating profit	21.9	10.2	47.4	6.9	(1.1)	(10.4)	**74.9**
Share of joint ventures' operating profit	-	-	0.4	5.2	1.7	-	**7.3**
Group and share of joint ventures	**21.9**	**10.2**	**47.8**	**12.1**	**0.6**	**(10.4)**	**82.2**
Share of joint ventures – finance cost	-	-	-	(1.7)	(1.2)	-	**(2.9)**
– tax	-	-	(0.1)	(1.1)	(0.2)	-	**(1.4)**
Profit from operations	21.9	10.2	47.7	9.3	(0.8)	(10.4)	**77.9**
Finance income/(cost)	16.2	0.3	(14.9)	(1.7)	1.5	(1.7)	**(0.3)**
Profit before tax	**38.1**	**10.5**	**32.8**	**7.6**	**0.7**	**(12.1)**	**77.6**
Balance sheet							
Investment in joint ventures	-	-	-	26.0	14.7	-	**40.7**
Other assets	325.2	95.0	418.8	35.9	0.6	27.3	**902.8**
Total liabilities	(603.0)	(96.4)	(123.3)	(4.5)	(4.8)	(76.9)	**(908.9)**
Net operating assets/(liabilities)	(277.8)	(1.4)	295.5	57.4	10.5	(49.6)	**34.6**
Cash, net of debt	361.2	15.8	(163.9)	(36.8)	(7.6)	(20.3)	**148.4**
Net assets	**83.4**	**14.4**	**131.6**	**20.6**	**2.9**	**(69.9)**	**183.0**

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

Notes to the consolidated financial statements continued

3. Exceptional items

	2008 £m	2007 £m
Restructuring of the Homes division	**(9.5)**	-
Land and work in progress write-downs		
Homes	**(26.6)**	-
Property - Group	**(1.5)**	-
- share of joint ventures before tax	**(3.2)**	-
	(31.3)	-
Profit on disposal of investment in joint venture	**16.2**	-
Exceptional items before tax	**(24.6)**	-
Taxation		
Share of joint ventures	**0.9**	-
Group	**9.3**	-
	10.2	-
Exceptional items after tax	**(14.4)**	-

These relate to any items that are sufficiently material by either their size or nature to require separate disclosure. They are reported separately in the income statement in the column headed 'Exceptional items'.

The exceptional charge in 2008 in respect of restructuring consists principally of the costs arising from the announcement of closures of four of the five offices within the Homes division to reduce it to a single office and administration centre and the costs associated with 390 staff redundancies.

The carrying value of inventories has been written down to net realisable value as a result of a significant deterioration in market conditions.

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

Notes to the consolidated financial statements continued

4. Income tax

a) Recognised in the income statement

	Before exceptional items 2008 £m	Exceptional items 2008 £m	Total 2008 £m	2007 £m
Current tax expense				
UK corporation tax	**20.6**	**(5.8)**	**14.8**	16.1
Overseas tax	**0.5**	**-**	**0.5**	1.5
Adjustments for prior years	**0.4**	**-**	**0.4**	(0.5)
Total current tax	**21.5**	**(5.8)**	**15.7**	17.1
Deferred tax expense				
Origination and reversal of temporary differences	**3.8**	**(3.7)**	**0.1**	4.1
Effect of change in tax rate	**0.1**	**0.2**	**0.3**	(1.0)
Adjustments for prior years	**(0.9)**	**-**	**(0.9)**	1.1
Total deferred tax	**3.0**	**(3.5)**	**(0.5)**	4.2
Total income tax expense in the income statement	**24.5**	**(9.3)**	**15.2**	21.3
Reconciliation of effective tax rate				
Profit before tax	**87.1**	**(23.7)**	**63.4**	77.6
Add: tax on joint ventures	**1.1**	**(0.9)**	**0.2**	1.4
Underlying profit before tax	**88.2**	**(24.6)**	**63.6**	79.0
Income tax at UK corporation tax rate of 29.5% (2007: 30%)	**26.0**	**(7.3)**	**18.7**	23.7
Non-deductible expenses	**1.8**	**0.1**	**1.9**	1.7
Tax reliefs on expenses not recognised in the income statement	**(2.1)**	**-**	**(2.1)**	(2.6)
Rate change effect on deferred tax	**0.1**	**0.2**	**0.3**	(1.0)
Profits attributable to minority interest not taxable	**(0.3)**	**-**	**(0.3)**	(0.2)
Effect of tax rates in foreign jurisdictions	**0.2**	**-**	**0.2**	0.3
Profit on disposal of joint venture taxed in a previous period	**-**	**(2.4)**	**(2.4)**	-
Capital gains not taxed	**-**	**(0.8)**	**(0.8)**	-
(Over)/under provision in respect of prior years	**(0.1)**	**-**	**(0.1)**	0.8
Total tax (including joint ventures)	**25.6**	**(10.2)**	**15.4**	22.7
Tax on joint ventures	**(1.1)**	**0.9**	**(0.2)**	(1.4)
Group income tax expense	**24.5**	**(9.3)**	**15.2**	21.3

b) Recognised in the statement of recognised income and expense

	2008 £m	2007 £m
Deferred tax expense		
Fair value movements on cash flow hedging instruments:		
Group	**0.2**	(0.2)
Joint ventures	**(2.0)**	3.9
Actuarial (losses)/gains on defined benefit pension schemes	**(9.4)**	8.4
Total income tax (credit)/expense in the statement of recognised income and expense	**(11.2)**	12.1

5. Dividends

Amounts recognised as distributions to equity holders in the year.

	2008 £m	2007 £m
Final dividend for the year ended 30 June 2007 of 40.4 pence (2006: 17.8 pence)	**14.5**	6.3
Interim dividend for the year ended 30 June 2008 of 18.0 pence (2007: 9.6 pence)	**6.5**	3.5
	21.0	9.8

The proposed final dividend of 37.0 pence (2007: 40.4 pence) bringing the total dividend for the year to 55.0 pence (2007: 50.0 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £13.5m will be paid on 28 November 2008 to shareholders on the register at the close of business on 26 September 2008. A scrip dividend alternative will be offered.

Notes to the consolidated financial statements continued

6. Earnings per share

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

	2008		2007	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**47.2**	**47.2**	55.5	55.5
Add: restructuring costs	**9.5**	**9.5**	-	-
Less: tax thereon	**(2.8)**	**(2.8)**	-	-
Add: land and work in progress write-downs	**30.4**	**30.4**	-	-
Less: tax thereon	**(8.1)**	**(8.1)**	-	-
Less: profit on the disposal of joint venture	**(16.2)**	**(16.2)**	-	-
Add: tax thereon	**1.6**	**1.6**	-	-
Underlying earnings	**61.6**	**61.6**	55.5	55.5
Add: amortisation of intangible assets	**2.1**	**2.1**	2.0	2.0
Less: tax on amortisation of intangible assets	**(0.6)**	**(0.6)**	(0.6)	(0.6)
Adjusted earnings	**63.1**	**63.1**	56.9	56.9
	million	**million**	million	million
Weighted average number of shares	**36.1**	**36.1**	35.8	35.8
Weighted average impact of LTIP	**-**	**0.3**	-	0.5
Weighted average number of shares used for earnings per share	**36.1**	**36.4**	35.8	36.3
	pence	**pence**	pence	pence
Earnings per share	**130.7**	**129.7**	155.0	152.9
Underlying earnings per share (excluding exceptional items)	**170.6**	**169.2**	155.0	152.9
Adjusted earnings per share (excluding exceptional items and the amortisation of intangible assets)	**174.8**	**173.4**	158.9	156.7

7. Reconciliation of changes in shareholders' equity

	2008	2007 £m
Opening shareholders' equity	**183.0**	108.5
Recognised income and expense for the year	**20.4**	79.4
Dividends to equity holders of the parent	**(21.0)**	(9.8)
Dividends paid to minority interests	**(0.9)**	-
Issue of own shares	**7.4**	7.0
Purchase of own shares	**(5.5)**	(8.7)
Share-based payments charge	**1.0**	3.9
Deferred tax on share-based payments	**(1.3)**	2.7
Closing shareholders' equity	**183.1**	183.0

8. Summary of acquisitions

	2008 £m	2007 £m
Construction and building services operations of:		
Sheffield City Council	**1.4**	1.4
Stoke-on-Trent City Council	**2.0**	-
Harlow Council	**-**	1.0
Hugh Bourn Developments (Wragby) Limited:		
Consideration paid	**13.1**	24.0
Net borrowings on acquisition	**-**	1.6
Total	**16.5**	28.0

9. Statutory accounts

The information set out above does not constitute statutory accounts for the year ended 30 June 2008 or 2007 but is derived from those accounts.

Statutory accounts for 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts, their reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.