News Release

KIER

KIER GROUP PLC

PRELIMINARY RESULTS FOR THE

YEAR TO 30 JUNE 2009

17 September 2009

- Underlying pre-tax profits* at £52.8m (2008: £89.2m)
- Underlying EPS* at 102.5p (2008: 174.8p)
- Full year dividend maintained at 55.0p
- Exceptional charges total £27.3m (2008: £24.6m)
- £92.5m of net cash at 30 June 2009 (2008: £143.9m) following committed land payments and further investment in the UK Supreme Court development
- Since the year-end contracts have been exchanged for the sale of UK Supreme Court for over £30m
- £400m of cash in the Construction division (2008: £410m)
- Secured and 'probable' order books for Construction at £2.2bn (2008: £2.1bn) represent 93% of 2010's revenue target and 50% of 2011's target
- Order books for Support Services at £2.3bn (2008: £2.0bn) following the recent award of North Tyneside contract at £600m
- Investment in Kent BSF provides £300m of additional construction work, PFI investment opportunities and a facilities management contract

*Underlying pre-tax profits and EPS are stated before amortisation of intangible assets of £2.2m (2008: £2.1m) and before exceptional items comprising land and property write-downs of £49.8m and reorganisation costs of £1.8m offset by a credit of £24.3m relating to changes in the salary related section of the Kier Group Pension Scheme.

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

Kier Group plc has performed well, with profits for the year ahead of expectations notwithstanding the harsh economic conditions that prevailed during the year, particularly for our Partnership Homes and Developments businesses. The Group continues to be cash positive with healthy order books in our Construction and Support Services businesses supported by framework agreements and public sector opportunities. This good performance is the result of our product diversification and spread of operations, the quality and commercial capability of our staff as well as our approach to risk management.

Chairman's statement

Against the backdrop of a very challenging economic climate, particularly in the UK property development and housing markets, I am pleased to report good results for Kier Group plc for the year to 30 June 2009. Underlying profits before tax, the amortisation of intangible assets and exceptional items were ahead of expectations at £52.8m (2008: £89.2m); and underlying earnings per share on the same basis were 102.5p (2008: 174.8p). Overall we recorded only a modest reduction in revenue to £2,145.6m (2008: £2,374.2m), despite fairly sizable volume reductions in our Partnership Homes and Developments businesses.

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

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

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

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

The Board is pleased to announce that it is proposing to maintain the total dividend for the year at 55.0p, the same level as last year's dividend. The dividend is 1.9 times covered by adjusted earnings per share. The final dividend of 37p will be paid on 27 November 2009 to shareholders on the register on

25 September 2009 and there will be a scrip dividend alternative. Maintaining the dividend in this difficult economic climate has been an important objective for the Board and we look forward to returning to a progressive dividend policy as economic conditions improve.

Board changes

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

Prospects

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

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

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

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

Chief executive's review

Overview

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

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

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

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

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

Financial performance

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

(2008: £83.8m), the decline attributable to our Partnership Homes and Developments divisions offsetting significant growth in Construction and Support Services.

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

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

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

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

Group structure and strategic developments

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

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

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

Business review, markets and outlook

Construction

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

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

56% of our awards were for public sector projects, with education, by far, our biggest source of work accounting for some £600m (45%) of our total awards for the year, much of it generated through framework agreements and partnerships with government, local authorities and universities. The Contractors' Framework for Academies has awarded us six projects so far with a combined value of £139m as well as a further six projects on which we are preferred bidder valued at an additional £272m.

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

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

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

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

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

The energy sector accounted for 14% of our awards in the year including the £100m contract at West Burton, Nottingham where we are providing civil engineering works for a 1200MW Combined Cycle Gas Turbine (CCGT) power station for EDF Energy. As the leading provider of power station infrastructure for CCGT power stations, having completed 13 such stations in a similar number of years, we are well placed to take advantage of the necessary future growth in this sector. We are preferred bidder with VT on a waste treatment plant at Wakefield and are exploring a number of opportunities in the nuclear sector, building on our 27 years of experience at Sellafield and Aldermaston. We have recently secured a position on the AWE Civil Framework to deliver projects at Aldermaston and Burghfield over a five-year period. At our open cast coal mine at Greenburn, East Ayrshire, we have now extracted 3.3m tonnes of coal since we began production in 2004 and are exploring further opportunities on adjacent sites which could increase our reserves significantly taking coal production to beyond 2016.

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

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

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

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

Construction markets and outlook

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

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

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

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

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

Support Services

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

Support Services business review

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

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

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

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

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

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

Support Services markets and outlook

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

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

Partnership Homes

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

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

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

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

Partnership Homes market and outlook

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

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

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

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

Developments

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

Developments business review

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

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

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

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

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

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

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

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

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

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

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

Developments markets and outlook

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

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

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

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

Health and safety

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

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

People

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

Markets and prospects

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

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

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 changes in accounting policies during the year.

Underlying profit before tax and exceptional items

Underlying profit before tax and exceptional items reduced by 41.9% to £50.6m (2008: £87.1m). This is stated after deducting joint venture tax of £0.3m (2008: £1.1m) and before minority interests of £0.8m (2008: £1.0m). The share of minority interests relates to the share of profits from our building maintenance outsourcing contracts attributable to local authorities in the circumstances in which they partner with Kier.

Exceptional items

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

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

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

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

Taxation

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

Interest and cash

The net interest paid for the year comprises the following:

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

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

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

Cash, net of debt, at 30 June 2009 includes £46.7m (2008: £44.9m) of cash which is not generally available for Group purposes, including that held by joint arrangements, overseas and other cash that cannot be offset against other Group bank balances. The liquid cash position is affected by seasonal, monthly and contract-specific cycles. In order to accommodate these flows the Group maintains a range of bank facilities of £110.0m comprising £12.5m of overdraft facilities and £97.5m of committed, revolving credit facilities all on an unsecured basis. £5.0m of this expires in January 2010 and £92.5m expires in January 2011.

Treasury policy and risk management

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

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

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

Balance sheet and total equity

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

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

Inventories

An analysis of inventories is given below:

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

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

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

Pensions

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

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

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

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

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

Consolidated income statement
for the year ended 30 June 2009

	Notes	2009 Before exceptional items £m	2009 Exceptional items* £m	2009 Total £m	2008 Before exceptional items £m	2008 Exceptional items* £m	2008 Total £m
Revenue							
Group and share of joint ventures	2	**2,145.6**	**-**	**2,145.6**	2,374.2	-	2,374.2
Less share of joint ventures		**(33.7)**	**-**	**(33.7)**	(41.8)	-	(41.8)
Group revenue		**2,111.9**	**-**	**2,111.9**	2,332.4	-	2,332.4
Cost of sales		**(1,925.1)**	**(44.5)**	**(1,969.6)**	(2,122.1)	(28.1)	(2,150.2)
Gross profit		**186.8**	**(44.5)**	**142.3**	210.3	(28.1)	182.2
Administrative expenses		**(136.7)**	**(1.8)**	**(138.5)**	(127.4)	(9.5)	(136.9)
Curtailment credit on retirement benefit obligation		**-**	**24.3**	**24.3**	-	-	-
Share of post tax results of joint ventures		**-**	**(3.8)**	**(3.8)**	0.9	(2.3)	(1.4)
Profit on disposal of joint venture		**-**	**-**	**-**	-	16.2	16.2
Profit from operations	2	**50.1**	**(25.8)**	**24.3**	83.8	(23.7)	60.1
Finance income		**5.3**	**-**	**5.3**	9.8	-	9.8
Finance cost		**(4.8)**	**-**	**(4.8)**	(6.5)	-	(6.5)
Profit before tax	2	**50.6**	**(25.8)**	**24.8**	87.1	(23.7)	63.4
Income tax	4a	**(14.0)**	**6.1**	**(7.9)**	(24.5)	9.3	(15.2)
Profit for the year		**36.6**	**(19.7)**	**16.9**	62.6	(14.4)	48.2
Attributable to:							
Equity holders of the parent		**35.8**	**(19.7)**	**16.1**	61.6	(14.4)	47.2
Minority interests		**0.8**	**-**	**0.8**	1.0	-	1.0
		36.6	**(19.7)**	**16.9**	62.6	(14.4)	48.2
Earnings per share	6						
– basic		**98.1p**		**44.1p**	170.6p		130.7p
– diluted		**97.8p**		**44.0p**	169.2p		129.7p
Adjusted earnings per share (excluding the amortisation of intangible assets)	6						
– basic		**102.5p**			174.8p		
– diluted		**102.2p**			173.4p		

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

Consolidated statement of recognised income and expense
for the year ended 30 June 2009

	Notes	2009 £m	2008 £m
Foreign exchange translation differences		**0.1**	0.7
Fair value movements in cash flow hedging instruments		**(17.2)**	(6.2)
Actuarial losses on defined benefit pension schemes		**(103.2)**	(33.5)
Deferred tax on items recognised directly in equity	4b	**33.7**	11.2
Income and expense recognised directly in equity		**(86.6)**	(27.8)
Profit for the year		**16.9**	48.2
Total recognised income and expense for the year		**(69.7)**	20.4
Attributable to:			
Equity holders of the parent		**(70.5)**	19.4
Minority interests		**0.8**	1.0
		(69.7)	20.4

Consolidated balance sheet

at 30 June 2009

	Notes	2009 £m	2008 £m
Non-current assets			
Intangible assets		**11.2**	13.4
Property, plant and equipment		**86.9**	92.2
Investment in joint ventures		**33.6**	39.9
Deferred tax assets		**32.1**	13.1
Other financial assets		**-**	0.1
Trade and other receivables		**49.0**	17.4
Non-current assets		**212.8**	176.1
Current assets			
Inventories		**424.3**	516.4
Other financial assets		**-**	0.9
Trade and other receivables		**296.7**	361.3
Income tax receivable		**6.6**	1.9
Cash and cash equivalents		**122.7**	174.1
Current assets		**850.3**	1,054.6
Total assets		**1,063.1**	1,230.7
Current liabilities			
Other financial liabilities		**(0.6)**	-
Trade and other payables		**(769.7)**	(914.2)
Tax liabilities		**-**	(2.6)
Provisions		**(5.9)**	(12.0)
Current liabilities		**(776.2)**	(928.8)
Non-current liabilities			
Long-term borrowings		**(30.2)**	(30.2)
Other financial liabilities		**(0.3)**	-
Trade and other payables		**(13.4)**	(13.5)
Retirement benefit obligations		**(114.7)**	(46.7)
Provisions		**(32.3)**	(21.9)
Deferred tax liabilities		**(3.5)**	(6.5)
Non-current liabilities		**(194.4)**	(118.8)
Total liabilities		**(970.6)**	(1,047.6)
Net assets	2	**92.5**	183.1
Equity			
Share capital		**0.4**	0.4
Share premium		**36.1**	34.4
Capital redemption reserve		**2.7**	2.7
Retained earnings		**62.3**	142.0
Cash flow hedge reserve		**(9.8)**	2.6
Translation reserve		**0.2**	0.1
Equity attributable to equity holders of the parent		**91.9**	182.2
Minority interests		**0.6**	0.9
Total equity	7	**92.5**	183.1

Consolidated cash flow statement
for the year ended 30 June 2009

	Notes	2009 £m	2008 £m
Cash flows from operating activities			
Profit before tax		**24.8**	63.4
Non cash exceptional items			
Restructuring costs		**1.8**	9.5
Land and work in progress write-downs		**48.3**	30.4
Curtailment credit on retirement benefit options		**(24.3)**	-
Profit on disposal of joint venture		**-**	(16.2)
Other adjustments			
Share of post tax trading profits from joint ventures		**-**	(0.9)
Normal contributions to pension fund in excess of pension charge		**(2.9)**	(4.6)
Share-based payments (credit)/charge		**(0.9)**	1.0
Amortisation of intangible assets		**2.2**	2.1
Depreciation charges		**14.6**	16.4
Profit on disposal of property, plant & equipment		**(1.3)**	(1.0)
Net finance income		**(0.5)**	(3.3)
Operating cash flows before movements in working capital		**61.8**	96.8
Special contributions to pension fund		**(8.0)**	(6.0)
Payment of restructuring costs		**(8.3)**	(1.4)
Decrease/(increase) in inventories		**51.4**	(84.3)
Decrease/(increase) in receivables		**33.8**	(48.7)
(Decrease)/increase in payables		**(133.5)**	97.8
Increase in provisions		**10.3**	2.4
Cash inflow from operating activities		**7.5**	56.6
Dividends received from joint ventures		**0.4**	0.8
Interest received		**4.8**	9.6
Income taxes paid		**(7.4)**	(18.4)
Net cash generated from operating activities		**5.3**	48.6
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		**4.4**	2.5
Proceeds from sale of joint venture		**-**	13.6
Purchases of property, plant & equipment		**(15.3)**	(27.5)
Acquisition of subsidiaries, including net borrowings acquired	8	**(14.0)**	(16.5)
Net investment in joint ventures		**(9.0)**	(2.9)
Net cash used in investing activities		**(33.9)**	(30.8)
Cash flows from financing activities			
Purchase of own shares		**(0.8)**	(5.5)
Interest paid		**(2.5)**	(2.3)
Dividends paid to equity holders of the parent		**(18.4)**	(13.6)
Dividends paid to minority interests		**(1.1)**	(0.9)
Net cash used in financing activities		**(22.8)**	(22.3)
Decrease in cash and cash equivalents		**(51.4)**	(4.5)
Opening cash and cash equivalents		**174.1**	178.6
Closing cash and cash equivalents		**122.7**	174.1
Reconciliation of net cash flow to movement in net funds			
Decrease in cash and cash equivalents		**(51.4)**	(4.5)
Opening net funds		**143.9**	148.4
Closing net funds		**92.5**	143.9
Net funds consist of:			
Cash and cash equivalents		**122.7**	174.1
Long-term borrowings		**(30.2)**	(30.2)
Net funds		**92.5**	143.9

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 Financial Reporting Standards as adopted by the EU.

2 Revenue, profit and segmental information

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

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

The changes to the structure are:

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

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

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

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

Year to 30 June 2009	**Construction £m**	**Support Services £m**	**Partnership Homes £m**	**Developments £m**	**Centre £m**	**Group £m**
Revenue						
Group and share of joint ventures	**1,492.2**	**437.9**	**150.8**	**64.7**	**-**	**2,145.6**
Less share of joint ventures	(2.4)	-	-	(31.3)	-	**(33.7)**
Group revenue	1,489.8	437.9	150.8	33.4	-	**2,111.9**
Profit						
Group operating profit	39.1	15.7	1.0	(2.8)	(2.9)	**50.1**
Share of joint ventures' operating profit	-	-	0.1	0.9	-	**1.0**
Group and share of joint ventures	**39.1**	**15.7**	**1.1**	**(1.9)**	**(2.9)**	**51.1**
Share of joint ventures – finance cost	-	-	-	(0.7)	-	**(0.7)**
– tax	-	-	-	(0.3)	-	**(0.3)**
Profit from operations before exceptional items	**39.1**	**15.7**	**1.1**	**(2.9)**	**(2.9)**	**50.1**
Curtailment credit on retirement benefit obligation	-	-	-	-	24.3	**24.3**
Land and work in progress write-downs	-	-	(42.5)	(7.3)	-	**(49.8)**
Joint venture tax on land and work in progress write-downs	-	-	-	1.5	-	**1.5**
Restructuring costs	-	-	(1.8)	-	-	**(1.8)**
Profit from operations	**39.1**	**15.7**	**(43.2)**	**(8.7)**	**21.4**	**24.3**
Finance income/(cost)[1]	20.3	0.4	(19.2)	(1.0)	-	**0.5**
Profit before tax	**59.4**	**16.1**	**(62.4)**	**(9.7)**	**21.4**	**24.8**
Balance sheet						
Investment in joint ventures	0.1	-	-	33.5	-	**33.6**
Other assets	303.1	91.6	401.6	59.7	50.8	**906.8**
Total liabilities	(588.5)	(104.3)	(62.0)	(8.0)	(177.6)	**(940.4)**
Net operating assets/(liabilities)	(285.3)	(12.7)	339.6	85.2	(126.8)	**-**
Cash, net of debt	399.7	36.7	(264.9)	(70.6)	(8.4)	**92.5**
Net assets	**114.4**	**24.0**	**74.7**	**14.6**	**(135.2)**	**92.5**

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

Notes to the consolidated financial statements continued

2 Revenue, profit and segmental information continued

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

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

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

3. Exceptional items

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

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

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

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

3. Exceptional items continued

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

4. Income tax

a) Recognised in the income statement

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

b) Recognised in the statement of recognised income and expense

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

5. Dividends

Amounts recognised as distributions to equity holders in the year.

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

The proposed final dividend of 37.0 pence (2008: 37.0 pence) bringing the total dividend for the year to 55.0 pence (2008: 55.0 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £13.6m will be paid on 27 November 2009 to shareholders on the register at the close of business on 25 September 2009. A scrip dividend alternative will be offered.

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.

	2009		2008	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**16.1**	**16.1**	47.2	47.2
Exclude: exceptional items	**25.8**	**25.8**	23.7	23.7
Tax thereon	**(6.1)**	**(6.1)**	(9.3)	(9.3)
Underlying earnings	**35.8**	**35.8**	61.6	61.6
Add: amortisation of intangible assets	**2.2**	**2.2**	2.1	2.1
Less: tax on amortisation of intangible assets	**(0.6)**	**(0.6)**	(0.6)	(0.6)
Adjusted earnings	**37.4**	**37.4**	63.1	63.1
	million	**million**	million	million
Weighted average number of shares	**36.5**	**36.5**	36.1	36.1
Weighted average impact of LTIP and Sharesave Scheme	**-**	**0.1**	-	0.3
Weighted average number of shares used for earnings per share	**36.5**	**36.6**	36.1	36.4
	pence	**pence**	pence	pence
Earnings per share	**44.1**	**44.0**	130.7	129.7
Underlying earnings per share (excluding exceptional items)	**98.1**	**97.8**	170.6	169.2
Adjusted earnings per share (excluding exceptional items and the amortisation of intangible assets)	**102.5**	**102.2**	174.8	173.4

7. Reconciliation of changes in shareholders' equity

	2009 £m	2008 £m
Opening shareholders' equity	**183.1**	183.0
Recognised income and expense for the year	**(69.7)**	20.4
Dividends to equity holders of the parent	**(20.1)**	(21.0)
Dividends paid to minority interests	**(1.1)**	(0.9)
Issue of own shares	**1.7**	7.4
Purchase of own shares	**(0.8)**	(5.5)
Share-based payments (credit)/charge	**(0.9)**	1.0
Deferred tax on share-based payments	**0.3**	(1.3)
Closing shareholders' equity	**92.5**	183.1

8. Summary of acquisitions

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

9. Statutory accounts

The information set out above does not constitute statutory accounts for the year ended 30 June 2009 or 2008 but is derived from those accounts.

Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 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 498 (1) or (2) of the Companies Act 2006.