



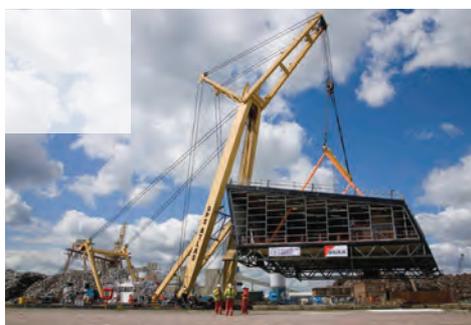
A strong platform for future growth



DEFINING TOMORROW'S ENVIRONMENTS

Kier Group plc is a leading construction, services and property group specialising in building and civil engineering, support services, commercial property development, structured property financing and private and affordable housing. The Group employs over 16,000 people* worldwide and has an annual revenue of £2.8bn*.

By providing our clients with the highest possible quality of service and through sustainable, profitable growth, **our vision is to be the most highly respected company in the industry.**



Cover:

Kier Construction has completed the Southend Pier Cultural Centre which is now open to the public ahead of an official opening this autumn. Built off-site at Tilbury Docks, the placing of the cultural centre onto the 120-year-old cast iron Southend Pier more than a mile out to sea presented the project team with a number of obstacles. The Kier team rose to the challenge with a fantastic result, and the new cultural centre has reinstated Southend's most famous landmark by creating a vibrant public space on the pier from which to enjoy the landscape of the Thames Estuary.

Awards won to date:

RIBA East Award
Surface Design Awards – Public Building Exterior Surface category
Southend-on-Sea Borough Council Star Awards – Innovation Award in the Enterprise, Tourism & Environment category
Southend-on-Sea Borough Council Design Awards – Highly Commended in the New Build category
Considerate Constructors Scheme Gold Award

* Post acquisition of May Gurney on 8 July 2013.

Overview

Kier at a glance

Kier has the financial strength, the ability and the resources to adapt its offering of services to meet any customer's requirements in the built environment. Our business is split into three key operating divisions.

Our divisions



Kier Construction

The Construction division encompasses our UK regional contracting, civil engineering and overseas businesses, which are highly skilled in the construction of the full range of building projects, together with power, waste and infrastructure facilities, transport, water and mining projects.

Construction by revenue 2013



Kier Services

The Services division comprised three businesses: housing maintenance, which provides reactive and planned maintenance; environmental, offering waste collection services, the operation of a major recycling facility and grounds maintenance; and facilities management (FM).*

Services by revenue 2013



Kier Property

The Property division encompasses our property development, structured project finance and private and affordable homes businesses, and has a pipeline in excess of £1.5bn across our development and mixed-tenure housing activities.

Property by revenue 2013



Our capabilities and services

Kier relies on the latest technology, the brightest people and close collaboration to deliver advanced solutions in diverse fields.

Facilities Management

- > Total FM services
- > Technical solutions
- > Energy management
- > Integrated solutions

Housing

- > Private residential

Affordable housing

- > Mixed-tenure housing and affordable homes

Living space

- > Care homes
- > High-rise affordable housing
- > Student accommodation

Rail services

- > Structures
- > Property
- > Signalling
- > Professional services

Housing maintenance

- > Responsive, cyclical & planned maintenance
- > Aids & adaptations
- > Statutory compliance services
- > Refurbishment and capital work



* Since the acquisition of May Gurney in July 2013, the enlarged Services division comprises seven main businesses: housing maintenance, environmental, FM, highways maintenance, utilities services, mainly water and telecommunications, fleet and passenger services, and waterways services.

Fleet and passenger services

- > End-to-end fleet management services
- > Passenger services

Utilities services

- > Maintenance & enhancement in water, gas & power
- > Mechanical & electrical maintenance
- > Mobile telecoms inspection & maintenance
- > Design

Construction management

- > Programme management
- > Studies
- > Interface management

Building

- > New build
- > Extensions
- > Modular
- > Design & build

Our markets

With our extensive experience in multiple sectors, Kier offers impeccable quality, competitive pricing and a history of successful projects.

On every project, Kier depends on a strategic, consultative approach that often provides significant savings for our clients. And by getting to understand their needs we can help them achieve diverse goals – including environmental, social and health targets.

While our Group offers the potential to reduce interfaces and costs, our regional businesses carry out projects – giving the feel of a small, local partner while drawing on local resources, but backed by the financial and technical resources of one of the UK's largest construction, services and property organisations.



Public sector
Kier works extensively with central government and local authority clients.



Commercial
Providing corporate clients with dynamic solutions.



Defence & justice
From prisons to police stations, Kier helps clients meet tough targets.



Education
Kier delivers and maintains a range of learning environments.



Energy & waste
Wide ranging expertise from power stations to waste processing solutions.



Healthcare
Developing solutions that centre around patients' needs.



Residential
Kier creates living spaces and provides support to the social housing sector.



Industrial
From manufacturing plants to warehouses, we can help streamline industrial and commercial businesses.



Infrastructure
Delivering technically challenging civil engineering and transportation projects around the world.



Leisure & hotels
Providing building and support services to the UK's most prominent leisure brands.



Retail
From single unit supermarkets to full retail parks, Kier can develop, build, fit out and refurbish.



Science & pharmaceuticals
Kier understands the exacting needs of this specialist sector.



Transport
Kier has a wealth of experience in rail, port, highway and airport projects.

Environmental services

- > Recycling & refuse collection
- > Household waste recycling centres (HWRCs)
- > Street cleansing & grounds maintenance
- > Refuse transfer & resource processing

Interiors and refurbishment

- > Interiors fit out
- > Refurbishment
- > Renovation

Mechanical and electrical

- > Design, installation & maintenance

Engineering design

- > Temporary works design
- > Temporary works advisory services
- > Structural engineering design
- > Geotechnical services

Technical services

- > 3D Visualisation and 4D modelling
- > Alternative design solutions
- > Building information modelling (BIM)
- > Design completion and project services
- > Process delivery

Property development

- > Development portfolio in offices, industrial, retail and mixed-use schemes
- > Managed fund development
- > Joint ventures, e.g. Network Rail
- > Waste to energy AD plants

Project investment

- > PFI schemes
- > PF2 schemes
- > Blue light, leisure, healthcare and housing

Asset Management

- > Strategic property asset management
- > Estates management
- > Property transactional services
- > Statutory compliance & maintenance management

Highways services

- > Highways maintenance
- > Surface dressing
- > Street lighting
- > Signage

Waterways services

- > Canal & river maintenance
- > Flood protection – construction & maintenance
- > Mechanical, civil & electrical engineering

Civil engineering

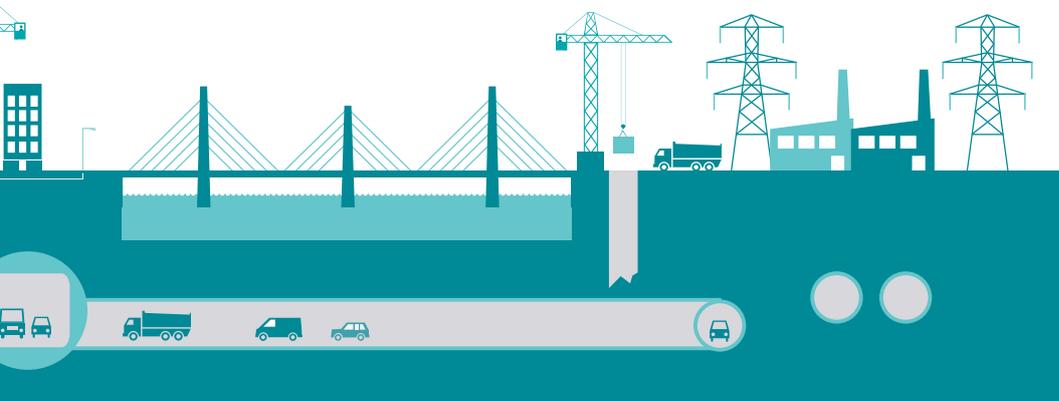
- > Earthworks
- > Foundations
- > Concrete works
- > Structural steel
- > Tunnelling
- > Remediation
- > Demolition
- > Regulated environments

Mining

- > Coal surface mining, Scotland
- > Phosphate mining, Saudi Arabia

Energy solutions

- > Energy ECO-funding
- > Energy performance contracting
- > Photovoltaic production and installation
- > Biomass, CHP



Kier Group plc has performed well and delivered profits in line with expectations, and the acquisition of May Gurney in July 2013 provides an excellent platform for growth.

Financial highlights

Revenue (£m)

£1,983m -4%

2013	1,983
2012	2,069
2011	2,179

Profit before tax* (£m)

£63.4m -9%

2013	63.4
2012	70.0
2011	68.9

Earning per share* (p)

136.2p -13%

2013	136.2
2012	156.8
2011	148.4

Dividend per share (p)

68.0p +3%

2013	68.0
2012	66.0
2011	64.0

Net cash balances

£60m -53%

2013	60
2012	129
2011	165

Combined Construction & Services order books

£4.3bn

2013	4.3
2012	4.3
2011	4.3

* Underlying operating profits and margins, pre-tax profits and EPS are stated before amortisation of intangible assets relating to contract rights of £3.4m (2012: £3.4m) and exceptional items totalling £17.0m (2012: £3.6m). Reported operating profit was £49.3m (2012: £67.4m), reported pre-tax profit was £43.0m (2012: £63.0m) and reported EPS was 95.8p (2012: 142.6p).

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Key achievements

100% of Construction and 95% of Services order books secured for 2014

Construction and Services order books maintained at more than £4bn (£5.9bn including May Gurney)

Mixed-tenure housing and property development pipeline in excess of £1.5bn

Property development achieved a 15% return on capital during the year

Our strategic focus

A key element of our strategy is to be both diverse and market-leading in our chosen businesses: Construction, Services and Property.

Group strategy

A key element of Kier's strategy is to be diverse and market-leading in its chosen businesses: Construction, Services and Property.

Our aim is to have strong, stand-alone businesses, able both to excel in strong markets and to be resilient when markets are weak. The cash flows generated by our Construction and Services businesses are invested in our Property business, where we aim to achieve in excess of a 15% return on that capital and, at the same time, generate construction and services revenues.

Construction division strategy

Kier's UK building business is one of the most diverse operations in the UK. It operates throughout the country and has access to a significant number of public and private sector frameworks. However, we still secure much of our work through tender processes, where customers often seek best value rather than lowest price. As a result, we are able to secure good quality work.

Our broad skills allow us to adapt our offering across the UK to respond to different opportunities, which has been particularly important in the current economic climate.

As markets begin to improve, we are well placed to focus strategically on growth areas – for example, Living*, health and education. In all those areas, we have secured good framework positions which will deliver revenue in the coming years. As private developers become more confident, we are experiencing more commercial opportunities and our strong balance sheet positions us well as a partner of choice for many of them.

We continue to strengthen our UK infrastructure business so that it can execute some of the largest civil engineering schemes in the country, where barriers to entry are higher. We have been successful in winning and executing a significant part of the Crossrail project and, more recently, we were awarded the £450m Mersey Gateway Bridge, further demonstrating the progress made in our infrastructure business, in which annual revenues are now approaching £300m.

We have had a significant presence in the power station construction market for a number of years and maintained a nuclear capability through our work at Sellafield, Aldermaston and Devonport dockyard. As a result, we are one of a small number of contractors capable of operating in this sector and have recently secured work for Urenco and EDF. We are working closely with the new nuclear generation companies for whom work is likely to start in the near term.

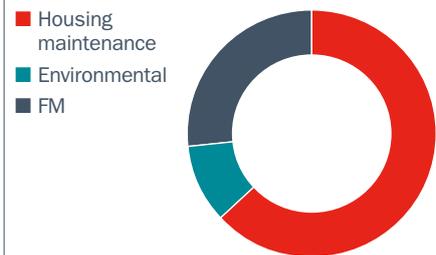
Our overseas business has also expanded and strengthened over recent years and we are looking to consolidate that growth. We are based in three regions – Hong Kong, the Middle East and the Caribbean - and expect each region to deliver approximately £50m of annual revenue. We focus on regions where we see a long-term, stable workload, recognising the risks involved in overseas operations. Risk management is a primary consideration in assessing overseas projects.

Services division strategy

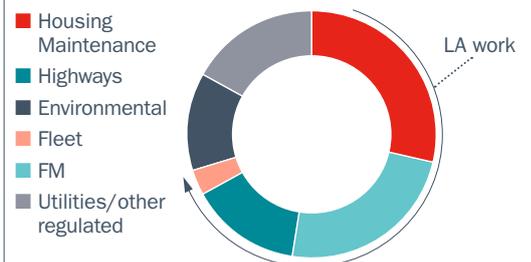
The significant expansion of our Services business has been another key element of our strategy. The acquisition of May Gurney on 8 July 2013 has not only doubled the size of our Services offering, but also adds additional, significant businesses to the Group, allowing us to offer more services to more customers. The scale of the business will also create opportunities for greater efficiency.

A key factor in the acquisition of May Gurney was the ability to provide cost-effective solutions and additional services across a wider customer base. Since acquiring the business, we have also identified opportunities to create revenue synergies for the Group.

Services division revenue 2013



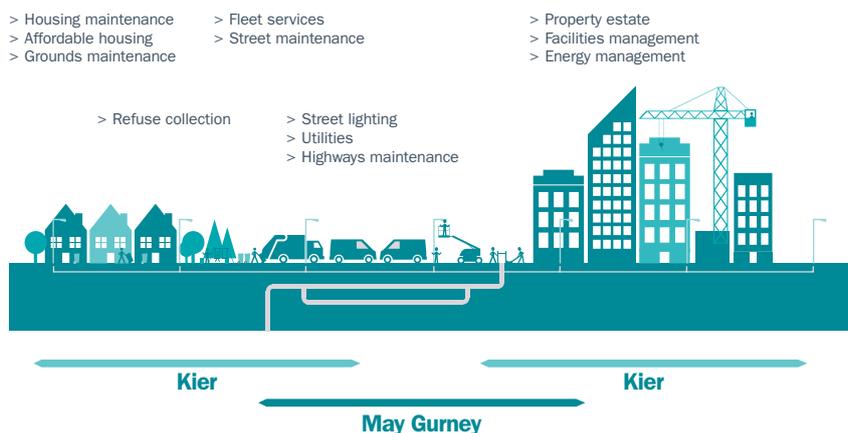
Combined Kier/May Gurney Services division revenue 2014 indicative



- Broad capabilities across all service segments
- Excellent access to local authorities
- Immediate access to new workstreams
- Improved scale and efficiency

* The Kier Living business provides care homes, high-rise affordable housing and student accommodation.

Deeper and broader local authority markets (Services division)



Property division strategy

Our Property business benefits from being part of the Group in two principal ways. Firstly, the cash generated by our Construction and Services businesses can be reinvested in Property. Secondly, the Group's ability to finance, build, operate and maintain assets has been a key differentiator in winning a number of development projects.

The Property division's strategy has been to gain access to long-term development portfolios, particularly through joint ventures with the public and regulated sectors. By utilising the Group's strong balance sheet and broad skill sets, sites are secured and asset values are improved through planning and development expertise. Having identified end-users, long-term leases are typically negotiated before we provide capital and build an asset. We set a target return on capital of 15% per annum which is significantly more than our average cost of capital. The division often acts as the catalyst for opportunities in other parts of the Group and approximately 10% of the Construction division's annual revenues are derived from our property developments.

Our PFI activities will continue to be a feature of the business and enable the Group to demonstrate the full breadth of its capability - from financing to construction and long-term maintenance. Our strategy is to sell mature assets whilst securing, building and maintaining new assets. In the past year, we have sold four assets and won three new larger schemes, having increased the valuation of the portfolio. New PFI schemes are being made available through the Government's PF2 programme and schemes such as the Aberdeen Western Peripheral route.

With the residential housing market becoming more positive, assisted by greater mortgage availability, increasing Government incentives to private buyers and investment in affordable housing grants, both our private and affordable homes businesses are well placed for growth in the next few years.

Our strategy is to focus on a region around our Tempsford Hall headquarters, encompassing Bedfordshire and Cambridgeshire, and an area in the Central Belt in Scotland, whilst reducing our land holdings elsewhere. Our affordable homes business is expected to expand its area of operation from the Midlands, having recently secured a position on the HCA's Development Partner Panel throughout the UK.

General business improvement

We are focusing on expanding our capabilities in a controlled and sustainable way. We have begun a process of making the business more efficient and better equipped for future growth. This has involved a significant restructuring of the management structures throughout the Group.

As part of this process, we have made significant investment in IT and management systems across all of our back-office functions and businesses.

This programme, together with the integration of May Gurney into our Services division, is already achieving significant cost savings, while allowing us to deliver services to our customers in an increasingly efficient manner.

Chairman's statement

“The Group delivered a resilient cash performance, despite the challenging working capital environment”



Phil White
Chairman

I am pleased to report a solid set of results for Kier Group plc (Kier) for the year ended 30 June 2013. Underlying profit before tax* of £63.4m (2012: £70.0m) and earnings per share* of 136.2p (2012: 156.8p) were in line with our expectations.

The Group delivered a resilient cash performance, despite the challenging working capital environment. Average Group month-end net debt was £4m (2012: average month-end net cash of £95m) as a result of the timing of our property transactions some of which completed in the last quarter of the financial year and after investment during the year of £77m, mainly in our Property and Construction businesses. This produced a Group net cash position at 30 June 2013 of £60m (2012: £129m).

Taking into account the performance of the Group, its strengthened capital structure and continuing the Group's progressive dividend policy, the Board proposes to increase the total dividend for the year by 3% to 68p (2012: 66p), which is well covered by underlying earnings per share and reflects the Board's confidence in the business. The final dividend of 46.5p will be paid on 27 November 2013 to shareholders on the register at close of business on 20 September 2013. There will be a scrip dividend alternative.

* Underlying operating profits and margins, pre-tax profits and EPS are stated before amortisation of intangible assets relating to contract rights of £3.4m (2012: £3.4m) and exceptional items totalling £17.0m (2012: £3.6m).

Board changes

During the year, the Board undertook a review of the management structure of the Group, following which a decision was taken to introduce the role of chief operating officer (COO) to strengthen and integrate Kier's operating processes across the enlarged Group and ensure that they are implemented in a cohesive and consistent way.

Steve Bowcott was appointed to this role and is responsible for the operational efficiency of both the Construction and the Services divisions. In addition to his current responsibilities, Haydn Mursell, the Group finance director, has assumed operational responsibility for the Property division. As a result of these changes Ian Lawson retired as a director from the Board in June.

I am confident that the introduction of the COO role, together with clearly defined roles and responsibilities for each of the executive management team, will enable the business to continue to deliver a strong trading performance.

Outlook

We have secured a number of significant contract wins across all of our businesses which means that we have begun the 2014 financial year in a good position, with all of the Construction division's targeted revenue and 95% of the Services division's targeted revenue currently secured and probable.

Having completed the acquisition of May Gurney in July, our combined order book now stands at £5.9bn across those divisions and stretches well beyond 2020. In addition, the Property division has a pipeline of £1.5bn and will be a key contributor to the Group results in the coming years.

The comprehensive review of our business that we started earlier in the year is substantially complete and our attention remains focused on the successful integration of May Gurney. This comes at a time when the macroeconomic outlook is beginning to improve in all our markets, positioning the Group for growth.

The role of our committees

Board of Directors

The Board is responsible to shareholders for the success of the Company. The Board develops the Group's strategy, monitors and reviews its business performance and controls risk. The Board has put in place reporting processes and other controls which are designed to ensure that it is provided with relevant information on a timely basis, which set authorisation limits and which reserve certain significant matters for the Board or its committees.

Risk Management and Audit Committee

Chair Richard Bailey

The Risk Management and Audit Committee comprises the non-executive directors. Richard Bailey, a chartered accountant with recent and relevant financial experience, is the chairman of the committee. The committee is responsible for monitoring and reviewing the Group's internal audit function. The director responsible for internal audit meets the chairman of the committee to discuss the function and the Group's internal controls. The committee is also responsible for monitoring and reviewing the performance, independence and objectivity of KPMG, the external auditor.

Nomination Committee

Chair Amanda Mellor

The Nomination Committee comprises the Group's non-executive directors. Amanda Mellor is the chair of the committee. The committee is responsible for monitoring the composition and balance of the Board, making recommendations to the Board on new Board appointments and succession planning.

Remuneration Committee

Chair Chris Geoghegan

The Remuneration Committee comprises the non-executive directors. Chris Geoghegan is the chairman of the committee. The committee makes recommendations to the Board on the Company's framework of executive remuneration and determines, on its behalf, specific remuneration packages for each of the executive directors. In doing so, it takes the advice of independent external consultants.

Safety, Health and Environment Committee (SHE Committee)

Chair Nick Winser

The SHE Committee comprises Nick Winser and Amanda Mellor, although the executive directors of the Group and the health and safety director are invited, and expected, to attend meetings, unless they are notified to the contrary. The committee is responsible for assisting the Board with respect to reviewing (i) the Group's strategy with respect to safety, health and environmental (SHE) matters, (ii) the Group's exposure to SHE risks and (iii) Group-wide SHE initiatives, policies and procedures and monitoring the Group's performance against SHE targets.

Overview

A year in review

It has been an eventful year for Kier and its employees across the UK and overseas. With the acquisition of May Gurney in July, we expect the next year to be even more exciting.

July 2012

Kier finished its three-year scheme with Featherstone 2 prison

The major new £200m custodial facility, now named HMP Oakwood, comprises a self contained Category B-enabled prison, providing over 1,600 cells on a 38-acre site.



Southend Pier Cultural Centre – ‘The Big Lift’ is uploaded on YouTube

The film shows how the structure was transported from London’s Tilbury Docks and secured in place at the end of Southend Pier. http://www.youtube.com/watch?v=_9pgiKI9nwU.



August 2012

Kier preferred bidder to deliver £140m Watford Health Campus

The scheme comprises a 375,000sq ft mixed-use development, including new hospital facilities for Watford and South-West Hertfordshire; up to 650 homes, 35% of which are affordable housing; a 37,500sq ft office, pre-let to WHHT; and a large multi-storey car park.



@kiergroup Great to see Kier helping the community and providing local children the opportunity to learn about wildlife @CCScheme



Kier forms JV to enter anaerobic digestion market

Kier entered a 50:50 joint venture with Bedfordia, a Bedfordshire-based company, in order to target the growing anaerobic digestion (AD) market. The joint venture will be known as Biogen, an existing division within Bedfordia that runs two successful AD plants in Bedfordshire and Northamptonshire. Several new plants are now being developed across the UK.

Kier awarded £120m environmental services contract

Kier was awarded an environmental services contract valued at around £120m by four councils in East Sussex. There was a phased start to the four councils’ services, Eastbourne and Wealden began in April 2013 followed by Hastings in July 2013 and Rother in April 2014.



Repairs app rolled out to Sheffield and Gosport

Following the successful launch of its smartphone application in Harlow, Kier has rolled out the Kier Repairs app to tenants and leaseholders in Sheffield and Gosport. The free to download app enables tenants and leaseholders, who are eligible for Kier’s repairs and maintenance services on their home, to report repairs directly using their smartphone.

Kier is the first, and currently only, contractor to have launched a repair app for its customers.



October 2012

Karters raise £50k for The Kier Foundation and Barnardo’s

Eighteen teams of Kier employees and their supply chain partners donned racing suits in the name of charity, raising money for The Kier Foundation in a six-hour outdoor endurance karting challenge at Daytona Karting, Milton Keynes. In total, over £50k has been raised on behalf of Barnardo’s by Kier Services, with the karting event contributing a large portion; a range of other fundraising activities – including ‘rock gigs’ and cake sales – provided the remainder.

November 2012

Kier signs up to green deal

Kier is the latest ‘big name’ organisation to receive Green Deal accreditation from leading certification body NICEIC.

@kiergroup thank you SO much for sponsoring the @coramsfields #fireworks. You gave hundreds of kids (& grownups!) an *amazing* spectacle! @JamesWatthey



Double success at Concrete Society Awards

The Oak Chapel at the Crownhill Crematorium, which was designed by Adrian Morrow Architects, received double recognition at the Concrete Society Awards; it won not only a Certificate of Excellence in the Building category, but also a Commendation in the Sustainability category.



Stay in touch

In order to maximise our communication with stakeholders, we have updated our website and embraced social media channels.



Follow us on Twitter

At the year-end we had over 12,000 followers on Twitter @kiergroup.



YouTube

In the year we uploaded five videos on YouTube [youtube.com/KierGroupplc](https://www.youtube.com/KierGroupplc)

A happy 1st birthday to The Kier Foundation

The Kier Foundation celebrated its first birthday and looks forward to a second successful year with the help of Kier employees. The charity has managed to triple its 2012 fundraising target for Kier's corporate charity partner Barnardo's. 175 Kier people received match funding for their individual charitable events while another 100, including members of the main Board, donated their time, energy and skills to helping community projects across the UK.



February 2013

There is a pot of gold at the end of these rainbows new Energy Centre looking good & on target thanks @kiergroup pic.twitter.com/pWJRanZO @SDCEnergyCentre



March 2013

Saudi JV signing

Kier Group chief executive Paul Sheffield signed a joint venture (JV) agreement between Kier and the AA Turki Group of companies (ATCO) of the Kingdom of Saudi Arabia. The agreement will lead to the formation of a new company, ATCO Kier Construction, jointly owned by Kier (65%) and ATCO (35%), with the remit to tender for and construct both civil and building projects within Saudi Arabia.



@kiergroup thank you for your prompt responses, it's always nice to see companies using social media effectively to address issues. @SJWalleTBeng



Kier appointed for key Haiti reconstruction project

Kier was awarded a design and build contract for a hotel project in Haiti that is seen as a pivotal scheme in the island's reconstruction following the earthquake that struck in January 2010. The 175-bedroom hotel in Port-au-Prince is being financed by mobile phone provider Digicel Group and will be operated by Marriott Hotels & Resorts.



April 2013

Kier leaps to Platinum Big Tick for its corporate responsibility

Kier has been recognised with the highest ranking in Business in the Community's Corporate Responsibility Index and received the Platinum Big Tick with a score of 95%.

May 2013

Kier launches new website

The new site received a complete facelift to coincide with the launch of Kier's new branding.



June 2013

Kier preferred bidder for £115m Broadmoor hospital redevelopment

Kier was announced preferred bidder by the West London Mental Health Trust for the redevelopment scheme at Broadmoor high secure mental health hospital in Crowthorne, Berkshire. It involves the construction of a new hospital containing 162 mental health beds, and will transport the 150-year-old hospital into the 21st century, providing a modern, fit for purpose environment for services and securing the future of high secure mental healthcare locally.



July 2013

Kier scheme named training initiative of the year

Kier's outstanding record for developing its employees was recognised at the 2013 Construction News Awards when it was awarded Training Initiative of the Year for its Developing Leaders Scheme.



Kier acquires May Gurney Integrated Services plc

On 8 July 2013, Kier acquired May Gurney, welcoming another 6,000 employees to the Kier family.

Chief executive's review

“The acquisition of May Gurney is a key milestone in the ongoing development and growth of the Group...providing us with a strong platform for 2014 and beyond”



Paul Sheffield
Chief Executive

A handwritten signature in black ink, appearing to read 'Paul Sheffield'.

Overview

Kier has delivered a solid set of results for the year ended 30 June 2013, with underlying profit before tax* and earnings per share* in line with our expectations. This has been supported by a resilient cash performance, with a year-end net cash balance of £60m (2012: £129m) after significant investment across the Group. This has been achieved in a very competitive trading environment and is testament to our effective project selection and risk management processes.

We have also had a number of significant project wins, enabling us to maintain strong order books. These include the Mersey Gateway Bridge, Broadmoor Hospital redevelopment, securing the redevelopment rights to the Swan Hunter shipyards on Tyneside and over £200m of housing maintenance awards.

During the year, we strengthened our capital structure, securing £92m of new funding via US private placements (USPP) with seven and ten-year durations and a loan under the Government's Funding for Lending Scheme, over four years. These replaced the previous £30m USPP, which expired in February, and are in addition to the renegotiations of our revolving credit facilities in 2012, which run to September 2016.

The acquisition of May Gurney is a key milestone in the ongoing development and growth of the Group. We now have a combined order book of almost £6bn across our Construction and Services divisions, providing us with a strong platform for 2014 and beyond.

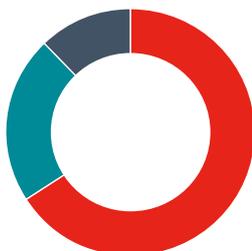
* Underlying operating profits and margins, pre-tax profits and EPS are stated before amortisation of intangible assets relating to contract rights of £3.4m (2012: £3.4m) and exceptional items totalling £17.0m (2012: £3.6m).

The new station we are constructing in joint venture for the Mass Transit Railway Corporation (MTRC) integrates the existing Tseun Wan and Island Lines with the new South Island Line and the Shatin Central Link in Hong Kong.



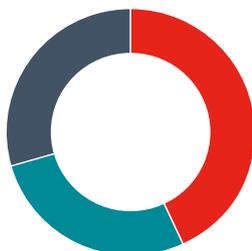
Divisional performance: revenue

- Construction
£1,308m
- Services
£437m
- Property
£238m



Divisional performance: operating profit*

- Construction
£30.4m
- Services
£19.3m
- Property
£20.5m



The Camden Civic Centre development at King's Cross (top) will combine a swimming pool, leisure centre, library, customer access centre, café and office accommodation and is set to be one of the greenest buildings in London. The photo shows the slip-formed concrete core.

One of our joint venture projects for Crossrail in London (bottom): sprayed concrete-lined access tunnel at Bond Street, Eastern Ticket Hall which will be used by passengers to reach the platforms. Concrete spraying machine seen at the opening to the tunnel.



Financial performance

	Total revenue ¹ £m	Operating profit ^{**1} £m
Construction	1,308	30.4
Services	437	19.3
Property	238	20.5
Corporate	–	(0.5)
	1,983	69.7

¹ Group and share of joint ventures.

Revenue for the year at £1,983m was slightly lower than last year (2012: £2,069m), primarily because of the reduction in our Construction revenues. Poor weather in the first quarter of this calendar year caused delays, pushing revenues into the 2014 financial year. As predicted, we have also seen a change in the mix of activities, with more infrastructure and overseas work.

The Group's operating profit* was £69.7m (2012: £74.4m), in line with our expectations and comprised operating margins* of 2.3% in Construction, 4.4% in Services and a sustained contribution (£20.5m) from Property as we continue with our investment strategy. The strength of the underlying divisional operating margins reflects the quality of the work we completed during the year.

Exceptional items before tax amounted to a charge of £17.0m for the year (2012: charge of £3.6m), as follows:

- > £12.0m relating to the comprehensive restructuring programme mainly in the Construction division, which is substantially complete. These included costs related to the closure of the scaffolding, joinery and temporary electrical businesses, office closures and associated staff reductions;
- > £3.2m relating to the disposal of the tower crane business, which comprised the loss on disposal of some of the fixed assets together with transaction and redundancy costs; and

> £1.8m of acquisition and integration costs relating to the May Gurney transaction.

The cash outflow during the year in respect of the above was approximately £11.0m.

Profit before tax* for the year of £63.4m (2012: £70.0m) and earnings per share of 136.2p (2012: 156.8p) were both in line with our expectations.

Dividend per share

68.0p +3%
(2012: 66.0p)

Earnings per share*

136.2p -13%
(2012: 156.8p)

Combined Construction and Services order book

£4.3bn
(2012: £4.3bn)

* Before exceptional items and amortisation of intangible assets relating to contract rights.

Chief executive's review

Continued

The management of working capital remains very important to us. We continue to operate in a challenging payment environment, where the introduction of project bank accounts and specific payment terms, particularly across public sector contracts and framework arrangements, place greater pressure on the working capital position of the Group. This is coupled with the changing nature of our construction contracts to a target cost, reimbursable type, as we continue to grow our infrastructure and overseas businesses.

It is therefore pleasing that the Group achieved an average month-end net debt balance of £4m (2012: average month-end net cash of £95m) after investment of approximately £77m during the year and the completion of a number of our property transactions in the last quarter of the financial year.

May Gurney

The acquisition of May Gurney has created a combined support services business with revenues in excess of £1bn. The enlarged Group is now more evenly balanced with an increased proportion of profits being derived from the Services division, which has an order book stretching over ten years.

The strategic rationale for the acquisition was to enable us to deliver more services to more customers over a wider geography. Our capability now extends to highways maintenance where we maintain approximately 35,000km of roads and 500,000 street lights and signs. Our environmental portfolio has substantially increased and we now provide services to over three million households. In utility services, we now have a presence in the telecommunications sector and an increased operational capability in many of the water authority regions on AMP5 schemes, which will position us well for the forthcoming AMP6 tenders in 2014.

Since the acquisition, we have not lost any contracts and our combined set of capabilities has enabled us to bid on a range of new projects covering water, rail and highways with a total value in excess of £500m.

Restructuring

In order to improve the efficiency of the Group, we have undertaken a significant restructuring programme during the year, closing some non-core operations and adjusting the scale of our regional building operations to better suit anticipated demand.

The programme is designed to ensure that we operate as efficiently as possible and maintain our operating margins at good levels. We will continue to invest appropriately in our IT infrastructure, which will help us to deliver further operational efficiencies.

The cost of this programme, reported as an exceptional charge, was £12.0m.

Outlook

With our entire forecast Construction revenue and 95% of our Services revenue secure and probable for 2014, we are in a strong position to achieve organic growth, which coupled with the strength of the forward bidding pipeline gives us comfort that this trend is likely to continue. The £1.5bn pipeline in our Property division has grown significantly over the last three years and there are many opportunities, which will provide good visibility of future earnings. We have the cash resources to continue to invest in non-speculative schemes that will generate our targeted 15% return on capital.

Following the acquisition of May Gurney we have received very strong customer support for the combination and we are already seeing the benefits of the greater breadth of services we can offer new and existing customers across the country.

The bidding for AMP6, across the water sector, will commence later this year and we are well placed to capitalise on the combined capabilities of the two businesses, while our combined rail offering will be of great benefit as we tender for a range of new framework agreements with Network Rail. Similarly, the scale of services we can deliver to local authorities providing innovative and cost effective solutions will be well received at a time when they are still looking to make operational savings.



“We have the cash resources to continue to invest in non-speculative Property development schemes that will generate our targeted 15% return on capital”

Chris Grice, cleansing operative. Our ten-year £120m environmental services contract in East Sussex covers four councils: Eastbourne, Wealden, Hastings and Rother. It includes waste collection, street and beach cleaning.



Safety, Health and Environment (SHE)

Through visible leadership, worker engagement and effective risk management, our goal remains the elimination of workplace injuries, better protection to our environment and an increase in our people's awareness of occupational health and well-being. Our Accident Incident Rate (AIR) of 333 remains well below the Health & Safety Executive's benchmark figure of 589.

Our Positive Safety Leadership (PSL) programme has delivered over 50,000 conversations recognising both positive and challenging aspects of SHE performance. These are a powerful means of engaging with our staff and developing a positive safety leadership culture throughout the Group. Over 60% of the delegates attending the Safe and Unsafe Acts (SUSA) workshops came from our supply chain, indicating the importance of collaborative working in delivering top-quartile SHE performance.

Our occupational health department supports the business in its aim to raise the awareness of well-being and the elimination of workplace injuries and incidents. Several health focus events were held throughout the country which were supported equally well by both Kier employees and our supply chain.

During the year, Kier received 22 RoSPA awards, 13 BSC awards, 44 Considerate Constructors Scheme national awards, six Green Apple awards, winner of the National Recycling award and the National House Building Council (NHBC) Health & Safety awards for the second consecutive year. We also achieved 95% (Platinum Big Tick status) in our 2013 Business in the Community (BITC) Corporate Responsibility Index (2012: 90% Gold status).

People

The acquisition of May Gurney involved a team of people from both businesses who have worked tirelessly to make the integration as smooth as possible with the least disruption to our respective customers.

We have welcomed our new colleagues to Kier with particular focus on health and safety, personnel, training and development to reinforce our objective of providing a seamless expansion of our services with a motivated and quality-driven management and workforce.

It is through the effort and commitment of our staff, now totalling approximately 16,000 people, that we remain a strong business and can continue to report such a solid set of results in the current economic environment.

On behalf of the Board, I would like to express my gratitude to everyone who makes all of this possible.

Paul Sheffield
Chief Executive



Nicky Atkinson, a City Stewardship learner and Jon Evans, City Stewardship supervisor (top far left), part of our housing maintenance team at Kier Sheffield LLP.

Tom Smith (bottom far left), leader for the recycling side of the business, Cheshire West and Chester (CWaC) contract, Winsford. He is currently on a May Gurney vehicle which collects householders' kerbside recycling.



After just two months on Kier Partnership Homes' Balaam Wood Site in Birmingham, apprentice Masimba Matapo (left) came third in the heats of the Dulux Decorators Centres' 2013 apprentice of the year competition. He then won a regional heat of the Johnstones Young Painter of the Year competition.

Operational review

Divisional highlights

“Our three divisions create a well-balanced business model, which coupled with our strong balance sheet, will continue to underpin our future performance”

Kier Construction

The Construction division encompasses our UK regional contracting, civil engineering and overseas businesses, which are highly skilled in the construction of the full range of building projects, together with power, waste and infrastructure facilities, transport, water and mining projects.

Revenue

£1,308m

(2012: £1,384m)

Operating profit*

£30.4m

(2012: £35.2m)

Order book

£2.2bn

(2012: £2.2bn)

Operating margin*

2.3%

(2012: 2.5%)

Kier Services

The Services division comprised three businesses: housing maintenance, which provides reactive and planned maintenance; environmental, offering waste collection services, the operation of a major recycling facility and grounds maintenance; and facilities management (FM).†

Revenue

£437m

(2012: £445m)

Operating profit*

£19.3m

(2012: £20.1m)

Order book

£2.0bn

(2012: £2.1bn)

Operating margin*

4.4%

(2012: 4.5%)

Kier Property

The Property division encompasses our property development, structured project finance and private and affordable homes businesses, and has a pipeline in excess of £1.5bn across our development and mixed-tenure housing activities.

Revenue

£238m

(2012: £241m)

Operating profit*

£20.5m

(2012: £22.0m)

Property development & mixed-tenure housing pipeline

£1.5bn

(2012: £1.0bn)

Land bank (plots)

4,005

(2012: 4,180)

* Before exceptional items and amortisation of intangible assets relating to contract rights.

† Since the acquisition of May Gurney in July 2013, the enlarged Services division comprises seven main businesses: housing maintenance, environmental, FM, highways maintenance, utilities services (mainly water and telecommunications), fleet and passenger services, and waterways services.



Camden, King's Cross

The Camden Civic Centre development at King's Cross will combine a swimming pool, leisure centre, library, customer access centre, café and office accommodation and is set to be one of the greenest buildings in London. The building has already won an esteemed 'green' award, and first place in the 'Other Buildings' category of the 2013 BREEAM Awards. It has also achieved a BREEAM sustainable design rating of Outstanding.

Revenue (£m)

£1,308m -5%

2013	1,308
2012	1,384
2011	1,445

Operating profit (£m)

£30.4m -14%

2013	30.4
2012	35.2
2011	39.3

Order book

£2.2bn

(2012: £2.2bn)

Operating margin

2.3%

(2012: 2.5%)

The Construction division comprises our UK building, civil engineering and overseas businesses, which are highly skilled in the construction of the full range of building projects, together with power, waste and infrastructure facilities, transport, water and mining projects.

Construction business review

Revenue in Construction was 5% lower than last year, at £1,308m (2012: £1,384m), as a result of poor weather in the first quarter of this calendar year causing delays and pushing revenues into the 2014 financial year. We have also experienced a change in the mix of activities within the division. UK building revenue has decreased to approximately £1bn, as we maintain our focus on the quality of work we pursue. However, this reduction has been partially mitigated by growth in UK infrastructure and overseas revenues.

As a result of the increasing proportion of UK infrastructure and overseas operations, a selective approach to new work and our prudent profit recognition policy, the operating margin*, at 2.3% (2012: 2.5%) represented a strong performance in today's markets, delivering £30.4m (2012: £35.2m) of operating profit*.

Cash, an area of key focus in this division, reduced to £320m (2012: £361m) after a £14m investment in our mining operations, a £6m cash effect of the restructuring programme, combined with a changing mix of activities with an increasing number of infrastructure projects typically of a target cost, reimbursable nature. However, the working capital trends that affected the building operations in the first six months of the financial year did not significantly affect the second half of the year. We will maintain strong management of working capital, particularly across public sector contracts and framework arrangements, where more stringent supply chain payment terms are being introduced.

We continue to have good visibility of high quality opportunities, with approximately 60% of contract awards during the year arising from numerous frameworks, together with a number of negotiated opportunities with clients with which we have long-term and well-established relationships. These awards, together with 'probable awards'

(comprising contracts on which we are in one-to-one negotiations), totalled £1.3bn, and have maintained the secured and probable order book at £2.2bn (2012: £2.2bn). This secures all of our targeted revenue for the 2014 financial year.

Approximately 49% of our awards were for public sector projects (2012: 50%) and we continue to predict that the balance of public sector to private sector work will remain at these levels.

Of the public sector awards, the education sector continues to be the largest source of work, representing 28% of awards (2012: 31%). Despite the decline in education spending, the Contractors' Framework continues to provide opportunities and during the year has resulted in more than £100m of contract awards. A replacement framework is currently being tendered with award notification expected in October 2013, which could be worth up to £4bn over four years.

Kier has secured a place on all five lots of the replacement LHC Frameworks (representing a consortia of local authorities and London boroughs) covering all of England, Scotland and Wales, and is actively pursuing the Private Finance Priority Schools Building Programme (PSBP), having recently secured the Southern Batch conventionally funded PSBP.

Construction division strategy (by revenue)

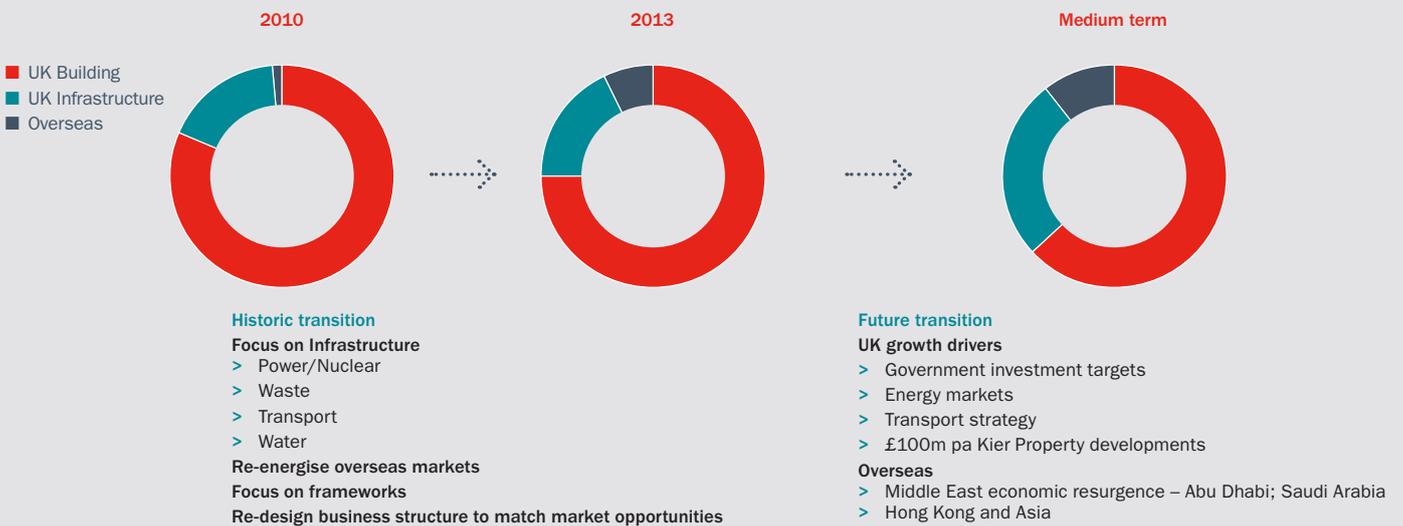
As markets begin to improve, we are well placed to focus strategically on growth areas. In all those areas, we have secured good framework positions which will deliver revenue in the coming years.

We continue to strengthen our UK infrastructure business so that it can execute some of the largest civil engineering schemes in the country, where barriers to entry are higher.

Our overseas business has also expanded and strengthened over recent years and we are looking to consolidate that growth. We are based in three regions – Hong Kong, the Middle East and the Caribbean.

 For more information see pages 2 and 3.

* Before exceptional items and amortisation of intangible assets relating to contract rights.



The Camden Civic Centre development at King's Cross (left) which is set to be one of the greenest buildings in London. Pictured is the progress at the beginning of July 2013 showing the expansive open plan access centre at ground to second floor level and commercial space above.

The ArHouse, Plot J1 at King's Cross Central (below), comprises 143 high quality one, two, three and four-bed residential units (including 29 Registered Social Landlord units) over eight floors. The building also includes commercial units at street level and 37 basement parking spaces.



We were also appointed to the South West Hub in Scotland, where there is a pipeline of £600m of work over 10 years for 17 councils and other public bodies, and have recently become preferred bidder on £60m of design & build and Facilities Management (FM) schools work under the scheme.

The healthcare sector represented 15% of our contract awards (2012: 10%) and the six-year ProCure21+ Framework, which commenced in 2010, generated over £150m of awards in the year and £400m to date, with a further pipeline identified in excess of £300m. In June 2013, we were selected as one of five delivery partners for Frameworks Scotland 2 for healthcare projects over £1m, with a forecast total of £660m over six years, and in the same month we were appointed as contractor for the £115m redevelopment of Broadmoor Hospital.

In the private sector, the strategic relationship we have developed with the Argent Group at the King's Cross Central Development continues to be a success, providing nearly £90m of projects at preferred bidder stage, including a £65m residential-led mixed-use development, an £18m supermarket project and a £5m pavilion

scheme. This is in addition to the £110m of work currently underway on the development.

Our Living business continues to be successful in bidding and delivering medium and high-rise contract housing, care homes and similar residential establishments and secured over £150m of opportunities during the year. Our core strategy of targeting long-term residential framework positions has been successful with 70% of new orders derived from such frameworks.

Our UK infrastructure business had a successful year. We were appointed preferred bidder in June 2013 as part of a three-way joint venture, Merseylink, with FCC and Samsung, to deliver the capital works on the circa £450m Mersey Gateway scheme, which includes construction of a new six-lane toll bridge over the River Mersey between Runcorn and Widnes. Financial close is expected later this year.



We have also been successful in many of our other core infrastructure sectors – nuclear, energy, and transport. In nuclear, we have completed work at Sellafield and Aldermaston and have secured £80m of work at Urenco, and we are making good progress on two major waste-to-energy schemes at Wakefield and Plymouth.

In the rail sector, we continue to progress well on Crossrail projects with over £800m of work underway in joint venture on the C300/410 Western Tunnels and the Farringdon and Liverpool Street stations. We have also completed work on the roof at King’s Cross station in London and the station regeneration at Epsom.

At the Greenburn surface coal mine, we secured planning for a further extension to the mining area, adding 750,000t of coal to the consented reserves. Work has already commenced in the new area, Wellhill, which will be mined over the next three years in conjunction with our existing Braehead site.

Overseas, we continue to experience growth in our chosen markets. In the Caribbean, we have enjoyed another successful year with awards in Jamaica and Haiti, including a new £22m Marriott Hotel in Port-au-Prince. The pipeline of regional opportunities remains strong and includes a number of opportunities in Trinidad and the Eastern Caribbean. Similar success has been enjoyed in the Middle East, where we have secured a number of projects in Abu Dhabi, Dubai and Saudi Arabia, and we are in preferred bidder position for a negotiated £32m hotel

in the region. In Hong Kong, our major joint venture projects for the Mass Transit Railway Corporation (MTRC) are progressing well and we are targeting a number of further opportunities in both the infrastructure and building sectors over the next 12 months. Our overseas business is on target to achieve revenues of £150m in 2014, as predicted.

Construction markets and outlook

The Construction business has maintained a strong position across its key markets. However, the trading environment is such that margins and working capital continue to be challenging. The restructuring programme will ensure we operate as efficiently as possible and maintain operating margins at approximately 2%.

We will continue with the strategy of focusing on the selection of high quality opportunities which best complement our skill sets and technical expertise. Our regional building coverage across the UK remains important; we will also continue to invest in our UK infrastructure activities and pursue growth in our key overseas regions. The recent acquisition of May Gurney also broadens our access to the rail market, where our combined capabilities will help us deliver larger and more integrated projects in this sector.

This robust approach will ensure our future strong performance, which together with our mix of activities across building and infrastructure, positions the business well for the future.

Contract awards – Public sector

49%

(2012: 50%)

Contract awards – Private sector

51%

(2012: 50%)



Kier is one of three construction joint venture partners preferred by Halton Borough Council to deliver the £450m Mersey Gateway project (left) as part of the Merseylink Consortium.

The first phase of works at the Sidney Stringer Academy (below) saw Kier construct two new three-storey Academy buildings. Pictured here is the main building.



Services

Revenue (£m)

£437m -2%

2013	437
2012	445
2011	484

Operating profit (£m)

£19.3 -4%

2013	19.3
2012	20.1
2011	21.7

Order book

£2.0bn

(2012: £2.1bn)

In our reporting in this year, we cover the three Services businesses that contributed to the 2013 results – housing maintenance, which provides reactive and planned maintenance largely to local authorities and housing associations; environmental, offering services for waste collection, the operation of a major recycling facility and grounds maintenance; and facilities management (FM).

The enlarged Services division, since the acquisition of May Gurney, now comprises seven businesses: housing maintenance, environmental, FM, highways maintenance, utilities services (mainly water and telecommunications), fleet and passenger services and waterways services.

Services business review

Revenue in all three businesses, housing maintenance, environmental and FM, was at similar levels to last year, at £437m (2012: £445m). This result reflects our success in renewing existing contracts and securing new business, despite the continued budget constraints faced by many of our public sector customers.

The operating margin* delivered was 4.4% (2012: 4.5%) and produced an operating profit* of £19.3m (2012: £20.1m). The margin is in line with our expectations and includes a higher level of bidding and mobilisation costs following our success in securing major schemes, such as Circle Housing Group and East Sussex.

Cash balances increased to £30m (2012: £19m) after investment in environmental vehicles, the cash effect of the exceptional items and included the £15m proceeds from the disposal of the majority of the plant business in August 2012. In August 2013, the sale of our tower cranes business for £5m also completed. Both transactions are in line with our strategy of withdrawing from non-core operations.

The order book at 30 June 2013 of £2.0bn (2012: £2.1bn) provided a good forward visibility of work, having secured over £400m of new contracts. This secured 95% of our targeted revenue for the 2014 financial year. The order book does not include contract extensions, which if our customers exercised in total, would add a further £800m.

Housing maintenance business revenues remained stable at £280m for 2013 (2012: £280m). This was a good result given the ongoing budget constraints, particularly in the area of discretionary spend by existing clients and the slower release of new work during the year. We continue to manage over 300,000 homes across the UK, representing 5% of the UK social housing market.

During the year, we were awarded planned housing improvement contracts as well as repair and maintenance



Services division strategy (by revenue)

The significant expansion of our Services business has been another key element of our strategy. The acquisition of May Gurney on 8 July 2013 has not only doubled the size of our Services offering, but also adds additional, significant businesses to the Group, allowing us to offer more services to more customers. The scale of the business will also create opportunities for greater efficiency.

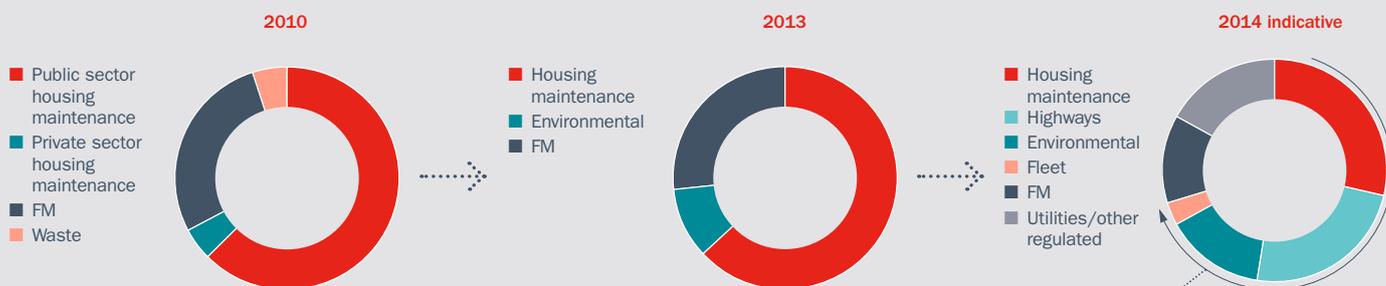
A key factor in the acquisition of May Gurney was the ability to provide cost effective solutions and additional services across a wider customer base. Since acquiring the business, we have also identified opportunities to create revenue synergies for the Group.

 For more information see pages 2 and 3.

* Before exceptional items and amortisation of intangible assets relating to contract rights.



Annual A22, Hailsham By-Pass Joint Working Exercise. The contract involves Kier (formerly May Gurney), as part of East Sussex Highways, coordinating grass cutting, litter picking, gully emptying, street light maintenance and road repairs within a single road closure. This includes liaison with East Sussex County Council, Wealden District Council and Colas along with our own supply chain partners, saving thousands of pounds in traffic management costs and minimising disruption to road users.



Transition created by

Expand FM capability

- > Organic growth
- > Blue chip customers
- > Geography

Enhance waste capability

- > Larger contracts
- > Pure and Biogen

Maintenance

- > Target private sector
- > Re-align public sector offering/capability

- > Broad capabilities across all service segments
- > Excellent access to local authorities
- > Immediate access to new workstreams
- > Improved scale and efficiency

Mark Smith (bottom left), gas fitter working on the Sheffield LLP contract. Mark works on gas repairs and servicing for the Sheffield Housing client, approx. 37,000 properties across the city.

William Oliver, Kier site manager, and Kim White, of J Whites Co (TDE) contractors (below), located at Hunters Bar Infant Primary School, Sheffield. The project was to demolish two existing buildings and replace them with two new modular buildings providing four 54 sq m classrooms.



“Kier’s environmental business has become a market leader in operating large cross-boundary contracts”



contracts by City of Lincoln Council, North West Leicestershire District Council, Harlow District Council and Northampton Borough Council with a total value exceeding £100m over five years (with a possible £88m extension) and two smaller contracts for Aberdeenshire Council. A new contract for Red Kite, a tenant-led, not-for-profit charitable housing organisation, involves managing around 6,700 properties around High Wycombe with a value of up to £15m over three years, with a possible two-year extension.

The contract for Circle, covering planned and cyclical maintenance with a value of £200m over an initial five-year period, commenced in April 2013, with a possible five-year extension to 2023. We gained further entry to the UK’s private rented housing sector when selected as Grainger plc’s (the UK’s largest listed residential property owner and manager) sole provider of tenants’ repairs and maintenance services across its UK property portfolio, with a contract value of £50m over a ten-year period.

Kier’s environmental business has become a market leader in operating large cross-boundary contracts.



Following the commencement of services across North Norfolk District Council and the Borough Council of King's Lynn and West Norfolk, work started in April 2013 with East Sussex Joint Waste Partnership. This will deliver £30m of savings to the four waste collection authorities of Wealden, Eastbourne, Hastings and Rother over the next ten years, increase recycling and compost rates to 50% and improve street cleansing standards.

The FM business had a successful year renewing contracts and securing new business, and achieved revenues of approximately £120m. Key successes being reappointed to provide services to the Legal & General estate, our growing presence in the Welsh market, including a four-year contract with Cardiff Council (£10m) and a five-plus two-year contract for the Welsh Assembly worth in excess of £20m. The business also closed two private finance deals, providing an integrated PFI solution for London Fire Brigade and Staffordshire Fire and Rescue with a combined FM value of £34m, over 25 years. In addition, contract wins with Hampshire and Surrey County Councils and the growth in the Scape Framework generated revenues of £40m. Elsewhere the business has further grown its portfolio of private sector customers including contracts with the RAC and DTZ estates.

Services markets and outlook

The Services division's performance remains robust, with a stable £2.0bn order book giving good forward visibility of workload, coupled with potential

extensions of £800m and a steady pipeline of further opportunities. We entered the 2014 financial year with 95% of our expected revenues secure and probable, which will maintain operating margins at around current levels.

In our housing maintenance business, we have good forward visibility of the bidding pipeline through to 2018, which is in excess of £3bn on responsive, planned and refurbishment activity across the social housing sector, with both local authority and Housing Association Registered Providers. The social housing repair, maintenance and refurbishment sector remains competitive, as both local authority and Housing Association Registered Providers seek ongoing efficiencies in response to further central government budget reductions announced in the 2013 Comprehensive Spending Review.

In the private sector, our diverse set of capabilities, covering soft FM, hard FM and building management, will provide further opportunities as customers examine their cost base and seek savings by outsourcing non-core activities.

In Services, our strategy remains to achieve scale and diversification and to drive operating efficiencies and greater penetration in our core markets. The May Gurney acquisition has delivered a significant element of the strategy and provides a broader platform for growth.

Over the medium term, we will continue to refine our strategy to ensure we are well placed to enter new markets, capitalise on emerging markets and drive for growth in our existing markets, particularly through building stronger relationships with customers, delivering excellent service and innovation.

Cash balances

£30m

(2012: £19m)

Operating margin

4.4%

(2012: 4.5%)



John Pack, refuse operative (left) and Colin Bassett, cleansing operative (above). The East Sussex Joint Waste Partnership is formed of four waste collection authorities: Wealden District Council, Eastbourne Borough Council, Hastings Borough Council and Rother District Council. The disposal authority, East Sussex County Council, also forms part of the Partnership. The ten-year contract covers nearly 200,000 households over a 550 square mile area.

Property

Revenue (£m)

£238m -1%

2013	238
2012	241
2011	250

Operating profit (£m)

£20.5 -7%

2013	20.5
2012	22.0
2011	15.3

Property development & mixed-tenure housing pipeline

£1.5bn

(2012: £1.0bn)

Land bank (plots)

4,005

(2012: 4,180)

The Property division encompasses our property development, structured project finance and private and affordable homes businesses and has a pipeline in excess of £1.5bn across our development and mixed-tenure housing activities.

Property business review

Revenue for the year to 30 June 2013 of £238m (2012: £241m) was broadly in line with last year. Operating profit was £20.5m (2012: £22.0m) and resulted from the ongoing progress of our combined £1.5bn property development and affordable housing pipeline and the level of private housing sales achieved.

Within the property development business, we completed a number of successful deals in the year and achieved a 15% pre-tax return on capital. In June 2013, we sold a £46m retail and warehouse scheme at Sydenham to Kier Sydenham LP, 50% of which is owned by Kier, with the remaining 50% owned by the trustees of the Kier Group Pension Scheme.

The Trade City brand for industrial development continues to perform well, with new schemes at Trade City International Park in Hayes (60,000sq ft) and at Trade City Cowley Mill Road, Uxbridge (120,000sq ft).

In July 2013, North Tyneside Council named Kier Property as its development partner to bring forward the £100m regeneration of the former Swan Hunter shipyard. We will deliver a master plan to transform the 34-acre site, secure occupiers for the high-tech industrial and office complex and build bespoke units over the next three years for individual occupiers.

Solum Regeneration, the joint venture with Network Rail, has in excess of £500m of mixed-use schemes in its portfolio. We have completed the scheme at Epsom station, are nearing completion at Walthamstow and Christchurch and have planning consent at Twickenham and Haywards Heath.

In June 2013 we reached financial close on the £240m Watford Health Campus project. The project will regenerate land around the Watford General Hospital, delivering 375,000sq ft of mixed-use development to the area including up to 650 new homes.

We continued with our strategy to sell mature PFI investments and disposed of equity investments in four projects: Bournemouth Library, Greenwich Neighbourhood Resource Centres, Ipswich Hospital and Gloucestershire Fire Stations. The total consideration was approximately £13m, representing a valuation discount rate on future cash flows of approximately 7%.

In November 2012, in consortium with Thames Valley Housing Association, Woking Borough Council announced us as preferred bidder to develop an £80m PFI housing scheme. The scheme,



Property division strategy (by profit)

The Property division's strategy has been to gain access to long-term development portfolios, particularly through joint ventures with the public and regulated sectors.

By utilising the Group's strong balance sheet and broad skill sets, sites are secured and asset values are improved through planning and development expertise. Having identified end-users, long-term leases are typically negotiated before we provide capital and build an asset.

Our PFI activities will continue to be a feature of the business and truly enable the Group to demonstrate the full breadth of its capability - from financing to construction and long-term maintenance. Our affordable homes business is expected to expand, having recently secured a position on the HCA's Development Partner Panel throughout the UK.

 For more information see pages 2 and 3.

* Before exceptional items and amortisation of intangible assets relating to contract rights.



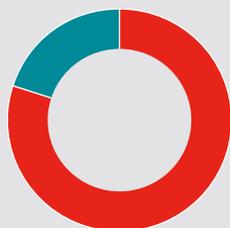
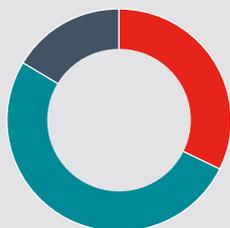
This 13-acre site at Sydenham consists of a 120,000sq ft bulky goods retail park with up to 115,000sq ft employment use. Since being selected as preferred developer by National Grid, Kier has successfully agreed terms with major retailers B&Q, DSG, Next at Home, Pets at Home, Toys R Us and McDonald's.

2010

2013

Medium term

- Development & PFI
- Homes
- Land transfer



- Development**
- > ROCE 15%
 - > £100m investment
- Homes**
- > Mixed-tenure order book c.£400m
 - > Stable private homes sales
- PFI**
- > Portfolio of eight projects
 - > Valuation: £35m at 7.5% discount rate

Transition created by

- > Investment in assets as part of Lloyds transaction in 2011
- > Affordable Homes secured pipeline growth from £80m to c. £400m
- > Land bank reduced from 6,500 to c. 4,000

- > PFI disposals replaced with new wins
- > Development pipeline > £1bn
- > Controlled development risk
- > > 15% ROCE annually for property development

- > Non-speculative strategy maintained
- > Market sentiment improving
- > Financial close on three PFIs (c. £150m)
- > Development and mixed-tenure housing pipeline £1.5bn

Shadwell Fire Station (right), part of the London Fire and Emergency Planning Authority PFI scheme.

Typical station office (below) to each of the nine new fire stations being delivered under a £70m PFI project for the London Fire and Emergency Planning Authority.



“The Property division continues to bring together skills and expertise from across the Group to deliver greater value from our schemes and to our customers”

which now has planning permission, will create 371 new homes, of which 224 will be available as affordable social rented housing and the remaining 147 homes will be for private sale, and is due to reach financial close in October 2013.

Subsequent to the year-end, we were pleased to announce that we had reached financial close on both the London Fire Service and Staffordshire Fire Service PFI schemes, which between them will provide 20 new fire stations at a combined value exceeding £100m.

Our portfolio of PFI projects currently totals eight schemes, with two at preferred bidder stage and six in construction or operational. Our committed equity investment stands at £22m (2012: £23m) including £4m (2012: £5m) for preferred bidder projects, of which £15m (2012: £18m) has been invested to date. The directors' valuation at a discount rate of 7.5% is £35m (2012: £34m).

In August 2012, we acquired a 50% investment in Biogen (UK) Holdings Ltd. The company designs, builds and operates large-scale anaerobic digestion (AD) plants to process food waste and produce renewable energy.



Forward order book

£400m

(Mixed-tenure housing)

Value of opportunities

£100m

(Provided to the Construction division)

The total committed investment in this joint venture, of £24m over a period of four years, will fund the construction of new AD plants to broaden Biogen's operating network. In addition to the two plants in operation at the time of the acquisition, we are currently building three plants, two in Wales and one in Hertfordshire. We are also preferred bidder on a further local authority plant in Wales and close to a start on site for a plant at Merevale, Warwickshire.

The private homes business made good progress during the year, with demand in the residential housing market remaining positive, assisted by Government incentives and an easing in mortgage availability. Sales rates and completions exceeded expectations at 0.7 sales/week/active site, delivering 556 completions during the year. At 30 June 2013, the closing land bank held 4,005 plots (2012: 4,180), having acquired five sites (474 units) and replanned other existing land holdings to improve viability.

The affordable housing market is also a fast moving environment. Our mixed-tenure regeneration business model, coupled with access to public sector land through a position on the Homes and Communities Agency's Development Partner Panel framework, has allowed us to develop opportunities in this sector and given us a platform to maximise our affordable housing grant allocation. Since July 2012, we have been successful in securing £230m of mixed-tenure housing development schemes, taking our forward order book to £400m, which equates to

approximately 2,600 new homes. Significant new schemes include 700 new homes at Manor and Kingsway Derby, 200 new homes at Greets Green in the West Midlands and 120 new homes in the third phase of a Bolsover regeneration programme in Derbyshire.

Property markets and outlook

The Property division continues to bring together skills and expertise from across the Group to deliver greater value from our schemes and to our customers.

There has been some improvement in market sentiment and bidding activity, which has resulted in increased competition, particularly from smaller companies with financial backing. However, this will present the business with opportunities to differentiate by utilising the Group's strong covenant and balance sheet.

In property development, we maintain a focus on predominantly non-speculative opportunities in well-located and marketable areas. Any such schemes will have significant potential for occupier-led, pre-let or forward sale solutions, while targeting a 15% return on capital. Similarly, we continue to pursue innovative funding routes to support the growth in the development pipeline and make the best use of the Group's cash reserves.

In the housing businesses, we will continue with a strategy of maintaining a private 600-unit housing business and will pursue growth in our mixed-tenure housing business through well-established relationships with local authorities and housing associations.

The Property division now has a pipeline of schemes valued at more than £1.5bn across both the development and mixed-tenure housing businesses. This creates a robust platform, which will underpin sustainable levels of profit over the next few years, while providing more than £100m of opportunities annually for the Construction division.



Heatherwood (left) is a new homes development in Thetford, consisting of 52 two, three and four-bedroom homes.

Egghill, Tessall Lane, Birmingham (above). The £52m Balaam Wood scheme is part of the regeneration of the Egghill area of Birmingham, which will provide approximately 500 new, high specification homes and a new neighbourhood park. Kier is delivering 58 new dwellings in phase 1 comprising 20 social rented and 38 open market sale houses all of which are being built to Birmingham City Council's generous space standards and the HCA quality and Lifetime Homes standards. Phase 3 of the project will also be delivered by Kier and comprises a further 400 dwellings of which 122 are for social rent.

Corporate responsibility

With a newly enlarged workforce of 16,000, Kier has greater potential than ever to make a significant difference to people's lives and environments, both through its core activities and the strong emphasis it places on corporate responsibility.

We are committed to improving our CR performance year-on-year and firmly believe that demonstrating good practice in all aspects of CR has a significant role to play in our ability to win new work.

Our CR programme is reported and based on the broad framework of the BITC CR Index alongside the requirements of the industry-specific Considerate Constructors Scheme. This report has been externally assured by KPMG Audit Plc and our full report is online and can be downloaded from www.kier.co.uk/ar2013/crr and complies with the Global Reporting Initiative (GRI) guidelines at application level C+.





RATES STA



newlon
HOUSING TRUST

Providing 352 affordable homes in partnership with the GLA and London Borough of Islington

ISLINGTON

Employer's Agent
CDM Co-ordinator

ARCADIS
Infrastructure • Water • Environment • Buildings

C7WC



Queensland Road was the first Kier project in London to receive the Kier Gold SHE flag for surpassing the one million RIDDOR-free hours benchmark. The Kier Construction team celebrates receiving the flag.

Taking responsibility

“Our corporate responsibility mission is to deliver a brighter future for our communities”

Foreword by Kier Group chief executive Paul Sheffield

Last year's CR report referred to Kier's 10,000 employees. Our acquisition of May Gurney in July 2013 has seen this figure grow to 16,000. We are currently undergoing an integration process to ensure our new employees are attuned to the Kier way of life – and of course corporate responsibility, along with all its strands, has a large and important part to play in this exercise.

With our newly reinforced Kier team, we have greater potential than ever before to make a really positive difference for the benefit of thousands of people within our areas of operation and beyond. Kier people are the very essence of our business and we are very much aware that it is their attitude and behaviours that determine our success. Testament to the attitude of Kier people is our newly acquired status as a Platinum Big Tick business, having achieved a 95% score in the 2013 BITC CR Index, up from 90% in 2012 (Gold status).

We have again opted to have KPMG Audit Plc provide an ISAE 3000 independent assurance report that can be found on page 33. Our measuring, reporting and monitoring is based on the Business in the Community Corporate Responsibility Index (BITC CR Index) and, in addition our full report, meets the Global Reporting Initiative's guidelines at C+ level.

Never before have companies been scrutinised so rigorously in terms of their CR performance. We are only too aware of the role that CR now plays in our ability to win new work, and the economic benefits of a sound investment in CR are clear. We are pleased therefore that our all-important health & safety performance has remained well above the industry

average, our carbon emissions have reduced, we've achieved our half waste to landfill target and our training and development programme has been awarded Training Initiative of the Year for its Developing Leaders scheme. Our positive community impact has been stepped up yet again with over 44 Considerate Constructors Scheme National awards – significantly more than any other company in our sector.

During the year Kier employees have been busy raising funds for The Kier Foundation, an independent, registered charity established by Kier in 2011. To date, the total funds raised on behalf of Kier Group's corporate charity partner, Barnardo's, stands at over £190,000. Alongside this, our people have been supporting many other charities of their choice supported by Kier match funding. Once again, they have shown real enthusiasm by taking part in all manner of activities to raise funds for good causes and many have become involved in community projects in their spare time. Barnardo's are delighted with our fundraising performance, and so am I. I am very proud of the commitment shown by Kier employees in making a difference to other people's lives and long may it continue.

Kier remains in good shape – better than many in our sector – and it is important that we remain poised to benefit from emerging opportunities and market changes. Some things we have little control over and while we have no option but to await signs of an economic recovery, we can take positive action in terms of our contribution to society. This helps to make a real difference to the way we are perceived as a business, our status as an employer and as a partner in the local community.

Paul Sheffield
Chairman

Corporate Responsibility
Steering Committee



A fully integrated approach

We recognise that a robust approach to all aspects of CR plays an important role in building a good reputation. Everything we say, everything we do and what others say about us influences our stakeholder groups. Our need to be recognised as a corporately responsible business must be maintained as part of our vision to be the most highly respected company in the industry.

Managing responsibility

Senior management with clearly defined roles are responsible and accountable to the Kier Board for ensuring that all aspects of our corporate responsibility, our brand, business risks, governance, ethics and finances are managed responsibly.

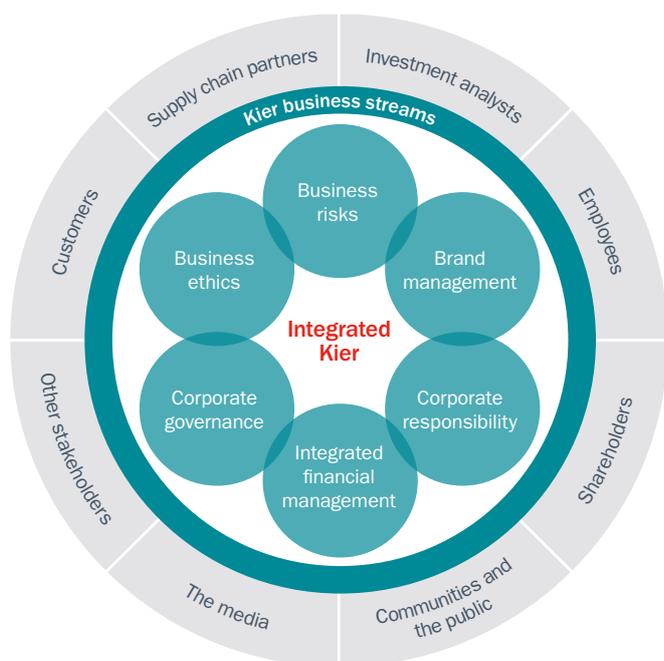
Delivering quality

As part of our bid to continuously improve we canvass our clients regularly and take action whenever appropriate to improve what we do and how we do it. Our aim is to exceed client expectations across our full range of services.

Stakeholder relationships

We are proactive in engaging with our shareholders to promote an understanding of how we operate. (See 'relations with shareholders' on page 57). We engage with our employees through roadshows and biennial surveys* to encourage feedback; our customers through satisfaction surveys and our communities through the Considerate Constructors Scheme, The Kier Foundation, BITC and numerous charities. The above is covered in more detail within our full Corporate Responsibility Report which is downloadable from www.kier.co.uk/ar2013/crr. We do not make any political donations (see directors' report on page 48).

* May Gurney has also undertaken regular employee engagement surveys and Kier will be working on combining the two sets of data as part of the integration process in readiness for next year's survey.



CR Steering Committee

During the year ended 30 June 2013 directors were eligible to receive a bonus, a proportion of which was payable if corporate responsibility and health & safety performance targets, which are considered to be key non-financial measures for the Group, were achieved. (See Directors' remuneration report on page 59).

The CR Steering Committee reports quarterly to the main Board, bringing to their attention issues that require addressing at the highest level. Such issues are listed below.

Chaired by Kier Group chief executive Paul Sheffield, the CR Steering Committee comprises senior representatives from all parts of the Group and convenes at least once a quarter.

The committee is responsible for establishing policies, measuring and maintaining the Group's CR impact and ensuring that all aspects of our responsibility to society are addressed, communicated and acted upon throughout all parts of the business. Subjects tabled for discussion during the year include:

- > CR Report
- > KPMG assurance work
- > Apprenticeships
- > Feedback from major investors
- > KPMG CR audit
- > BITC CR Index survey results
- > Equality & diversity
- > The Kier Foundation
- > Carbon disclosure project
- > Smartwaste
- > Considerate Constructors Scheme
- > Research into impact of CR on winning new work
- > Employee engagement

How we're doing

We are pleased to report that our Accident Incident Rate (AIR) v manpower rating remains well below the industry average but we know that we cannot be complacent and will remain focused on reducing our AIR rate still further.

We've achieved our halving waste to landfill target in the allotted time; our Scope 1 and 2 carbon emissions have reduced and our company car emissions are down too.

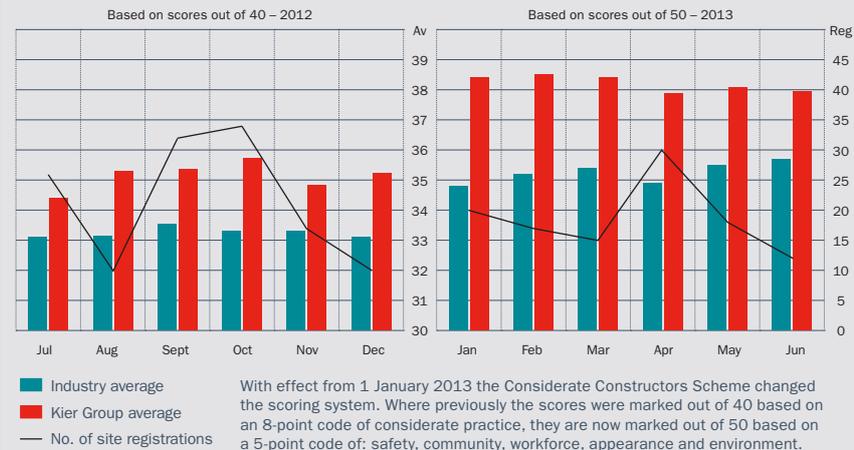
Our Considerate Constructors Scheme (CCS) scores have been consistently above average and indeed reflect our best ever performance to date. We were delighted to learn that we had won eight Green Apple Awards for a variety of environmental best practice initiatives by our businesses and two (Gold) awards for the Built Environment and Architectural Heritage. Our new colleagues at May Gurney also won seven Green Apple Awards.

Following our participation in the BITC CR Index Survey 2013, we are proud of our new status as a Platinum Big Tick company, having achieved a score of 95%, up from 90% in 2012 (Gold status).

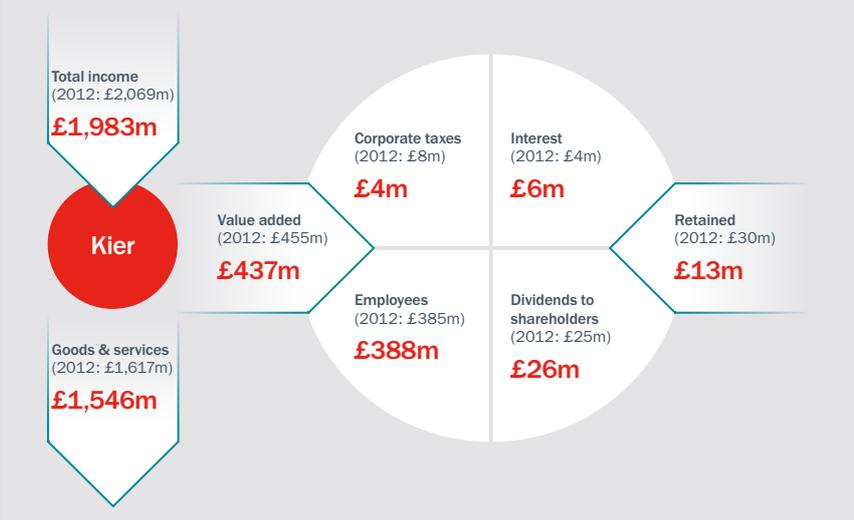
AIR v manpower ten-year chart



Considerate Constructors Scheme*



Direct economic value added*



* Included within KPMG's scope of assurance. The KPIs that have been referred to in this report are defined in the Company's reporting guidelines which can be found on our website www.kier.co.uk/rg.

† Our carbon emissions have been restated for the years 2009 to 2012 to take account of material changes to the conversion factors provided by Defra for company reporting purposes.

BITC performance

Platinum big tick status (2012: 90%)

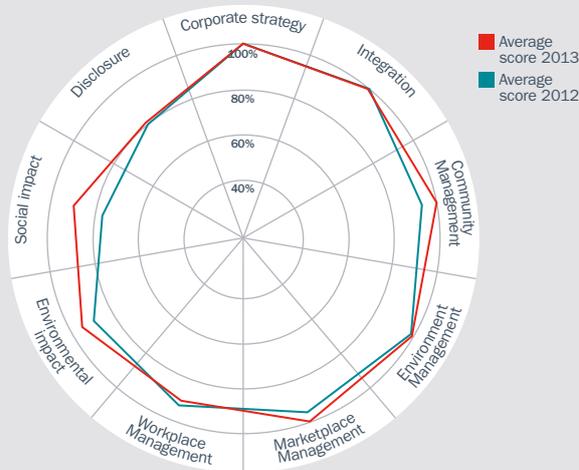
95%



The Group participated in the 2013 BITC CR Index, achieving 95% (Platinum big tick status), up from 90% in 2012 (Gold status)

Summary performance

This chart summarises Kier's performance across each section of the CR Index survey.

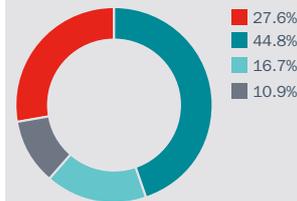


Waste management

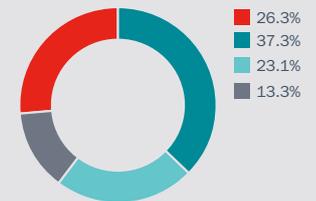
Data from SMARTWASTE for all businesses' construction, demolition and excavation waste.

■ Disposed
■ Re-used
■ Recycled
■ Recovered

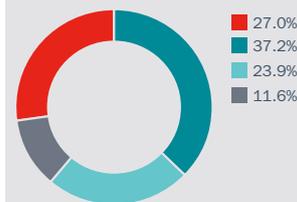
Year to 30 June 2010



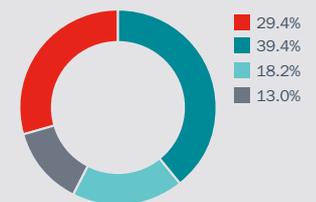
Year to 30 June 2011



Year to 30 June 2012

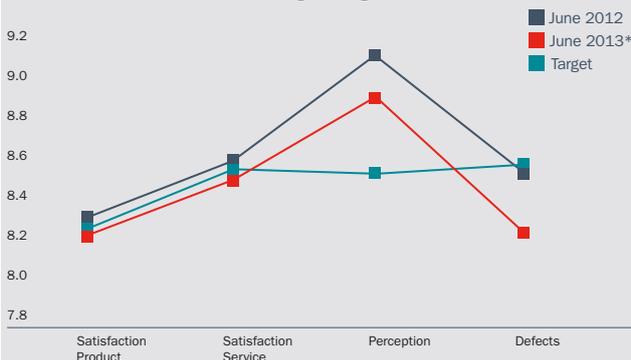


Year to 30 June 2013



Customer satisfaction scores

Kier Construction 12-month rolling average scores



Environmental best practice

Green Apple Awards for Environmental Best Practice 2013*



- 1 Kier Construction Central: *Spreading Best Practice, Offcuts, an Environmental Newsletter*
- 2 Kier Construction Eastern: *Tempsford Hall Refurbishment*
- 3 Kier Construction Western: *Travel the "Wood Fuel Journey" in a day*
- 4 Kier Gosport: *Waste to Resource - Transforming the Waste Transfer Station*
- 5 Kier Construction Northern: *A Resume of Environmental Projects*
- 6 Kier North Tyneside: *Electrical Goods Re-use and Recycle Scheme*
- 7 Kier Mining: *Bridging the Gap at Greenburn Surface Mine*
- 8 Kier Mining: *Conservation Management at Greenburn Surface Mine*

Our new colleagues at May Gurney also won seven awards



Green Apple Awards for the Built Environment & Architectural Heritage 2013*



- 1 Kier Major Projects: *Green Wall, King's Cross Development - Gold Award*
- 2 Kier Construction Eastern: *City Academy, Norwich - Gold Award*

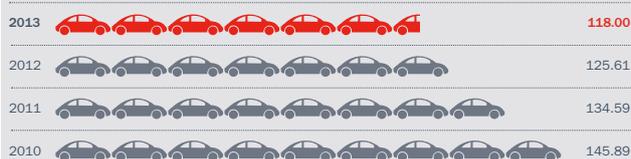
Carbon intensity

Kier Group UK operations Scope 1 and 2 emissions:

Year	Total Scope 1 & 2 emissions total CO ₂ emissions (tonnes)	Intensity total CO ₂ emissions/£m turnover (tonnes)	Intensity total CO ₂ emissions/employee (tonnes)
2009 [†]	71,434	35.6	6.97
2010 [†]	74,069	34.2	7.30
2011 [†]	70,763	34.4	6.96
2012 [†]	69,964*	35.0	7.40

Company car emissions

Average CO₂ emissions rating of company car fleet (g/km)



GRI Index performance

GRI Index

C+

Our full CR Report is assured to comply with application level C+ of the GRI Index.

GRI Index contents table level C+ can be found in our full CR Report at: www.kier.co.uk/ar2013/crr

Benchmark activities

Marketplace: Customers and supply chain

Our discerning customers seek to work with companies whose activities they can respect. Regular customer surveys help us to measure how we're doing as a business in terms of our corporate reputation and our approach to CR.

Customer satisfaction surveys

Perfect scores* (2012: 26.76%) Results exceeding 80%* (2012: 79.55%)

19.20% 77.42%



Biogen, Kier's 50:50 joint venture with Bedfordia, has gained Kier entry into the anaerobic digestion market and has presented some exciting opportunities for both parties.

Environment and climate change

Our mission to further reduce our carbon emissions and waste to landfill is delivering results for Kier. Our commitment to sharing best practice extends to our suppliers and subcontractors.

Carbon and waste

Emissions in tonnes during 2012 (rebased)* (per £m) (2011: 70,763t) Carbon Disclosure Project (CDP) score* (2012: 81)

69,964t 80



Kier had a double victory at the 2013 National Recycling Awards, taking home Construction Recycler of the Year and, for Biogen, Kier's 50:50 joint venture with Bedfordia, Recycling and Waste Management Business of the Year – SME.

Workplace: Health and safety

Our above-average AIR rate reflects our commitment to create safer working environments through strong leadership and a determination not to become complacent.

Accident Incidence Rate (AIR)

Staff (Kier) (per 100,000)* (2012: 301) Staff (HSE) (per 100,000)* (2012: 536)

333 589



Kier Construction in London launched an initiative to reward and acknowledge site teams for excellence in safety, health & environment (SHE). The Menorah School team was the first London site to win the SHE award.

Workplace: Employees and training

Kier's 16,000** employees are vital to the success of our business and all should have the opportunity to grow and develop as far as they can. We are keen to keep our workforce engaged and encourage their feedback to enable us to improve as an employer.

Employee development

Craft apprenticeships* (2012: 248) Foundation degrees* (2012: 132)

230 148



The first cohort to complete the Kier Foundation Degree programme gained a full BSc Honours degree in Construction and Commercial Management.

Community engagement

The widespread UK coverage of our businesses provides excellent potential to deliver your CR vision for the benefit of thousands of people wherever we operate by integrating with local communities to make a positive difference.

Community and related programmes

Man-hours* (2012: 161,254) Equivalent value of man-hours* (2012: £3.08m)

185,486 £3.50m



Kier senior management rolled up their sleeves to clear an overgrown shrubbery over a chilly weekend as part of a garden makeover at a Barnardo's children's centre in Peterborough.

Considerate Constructors Scheme

Kier joined as an Associate Member of the Considerate Constructors Scheme five years ago. Since then, we have maintained consistently high scores compared with the industry average and this year have won 44 national CCS awards.

Average Group scores

Six months to 1 January 2013
Scheme monthly score out of 40* (2012: 35.09) Industry average* (2012: 33.04)

35.12 33.23

Six months to 30 June 2013
Scheme monthly score out of 50* Industry average*

38.17 35.24

* Included within KPMG's scope of assurance. The KPIs that have been referred to in this report are defined in the Company's reporting guidelines which can be found on our website www.kier.co.uk/rg.

** Data for 2013 based on 10,000 Kier employees prior to adding 6,000 May Gurney staff in July 2013.

Assurance statement

KPMG Audit Plc was engaged by Kier Group plc ('Kier') to provide limited assurance over selected aspects of the Kier Group plc Corporate Responsibility section in its Annual Report and Accounts for the year ended 30 June 2013 ('the Report').

This independent assurance report is made solely to Kier in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Kier those matters we have been engaged to state within this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Kier for our work, this report, or for the conclusions we have reached.

Responsibilities

The Directors of Kier Group plc are responsible for preparing the Report and the information and statements within it. They are responsible for identification of stakeholders and material issues, for defining objectives with respect to corporate responsibility performance, and for establishing and maintaining appropriate performance management and internal control systems from which reported information is derived.

Our responsibility is to express our conclusions in relation to the scope set out below.

What was included in the scope of our assurance engagement?

Assurance scope

Reliability of performance data for year ended 30 June 2013 marked with the symbol * on pages 26 to 32 of the Report.

Level of assurance

Limited assurance.

Reporting criteria

Relevant internal reporting guidelines for the selected performance data as set out in Kier's reporting guidelines available at www.kier.co.uk/rg.

The extent of evidence-gathering procedures for a limited assurance engagement is less than for a reasonable assurance engagement, and therefore a lower level of assurance is provided for the data.

Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques which can result in materially different measurements and can impact comparability. The precision of different measurement techniques may also vary. Furthermore, the nature and methods used to determine such information, as well as the measurement criteria and the precision thereof, may change over time.

It is important to read the selected corporate responsibility information contained within the Report in the context of Kier's Reporting Guidelines available on the Kier website www.kier.co.uk/rg.

In particular, inherent limitations affect the conversion of electricity and fuel used to calculate carbon emissions. Conversion of electricity and fuel used to calculate carbon emissions is based upon, inter alia, information and factors derived by independent third parties as explained in Kier's Reporting Guidelines. Our assurance work has not included examination of the derivation of those factors and other third-party information. Our assurance work has not included challenging the scientific work undertaken by independent third parties when calculating these emissions factors.

Which assurance standard did we use?

We conducted our work in accordance with ISAE 3000¹, with a team of specialists in auditing environmental information and with experience in similar engagements. This standard requires that we comply with applicable ethical requirements, including

independence requirements, and plan and perform the engagement to obtain limited assurance about whether the data is free from material misstatement.

ISAE 3000 requires the practitioner complies with the requirements of Parts A and B of the Code of Ethics for Professional Accountants. This is issued by the International Ethics Standards Board for Accountants (the IESBA Code) which requires, among other requirements, that the members of the assurance team (practitioners) as well as the assurance firm (assurance provider) be independent of the assurance client, including not being involved in writing the Report and plan and perform the engagements to obtain limited assurance about whether data is free from material misstatement. The Code also includes detailed requirements for practitioners regarding integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. KPMG Audit Plc has systems and processes in place to monitor compliance with the Code and to prevent conflicts regarding independence. Our independence with the client is reviewed on an annual basis.

What did we do to reach our conclusions?

We planned and performed our work to obtain all the evidence, information and explanations that we considered necessary in relation to the above scope. Our work was limited to the following procedures using a range of evidence-gathering activities which are further explained below:

- > Conducting interviews with management and other personnel at Kier, to understand the systems and controls in place during the year ended 30 June 2013;
- > An evaluation of the design, existence and operation of the systems and methods used to collect, process and aggregate the selected performance data as well as testing the reliability of underlying data at a risk based selection of businesses/sites, being those at:
 - > Kier Services – Maintenance
 - > Kier Construction – Kier Infrastructure
 - > Kier Minerals – Greenburn Surface Mine
 - > Kier Group – Tempsford Head Office

From a Group perspective these businesses/sites represent:

- > 61% of the selected Environment and climate change data;
- > 39% of the selected Workplace data;
- > 100% of the selected Marketplace data;
- > 51% of the selected Community engagement data; and
- > 100% of the selected Considerate Constructors Scheme data.

What are our conclusions?

The following conclusions should be read in conjunction with the work performed and scope of our assurance engagement described above.

- > Nothing has come to our attention to suggest that the performance data marked with the symbol *, on pages 26 to 32, are not fairly stated, in all material respects in accordance with the relevant internal reporting guidelines for the selected performance data.

Michael Fromm
for and on behalf of KPMG Audit Plc

Chartered Accountants
London
11 September 2013

¹ International Standard on Assurance Engagements 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board.

Financial review

“During the year, we considerably strengthened our capital structure”

Haydn Mursell
Finance Director




In conjunction with the chairman’s statement and the chief executive’s review, this report provides further information on key aspects of the financial performance and the financial position of the Group.

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 to the accounting policies adopted by the Group during the year ended 30 June 2013.

Total results

Operating profit of £49.3m (2012: £67.4m), pre-tax profits of £43.0m (2012: £63.0m) and earnings per share of 95.8p (2012: 142.6p) represent the reported results; however for the underlying financial performance please refer to the section below.

Operating profit* (£m)

£69.7m -6%

2013	69.7
2012	74.4
2011	71.1

Profit before tax* (£m)

£63.4m -9%

2013	63.4
2012	70.0
2011	69.8

Financial performance

	2013 £m	2012 £m	Change %
Revenue: Group and share of joint ventures	1,983	2,069	-4
Operating profit: Group and share of joint ventures*	69.7	74.4	-6
Profit before tax*	63.4	70.0	-9
	p	p	
Earnings per share*	136.2	156.8	-13
Dividend per share	68.0	66.0	+3
	£m	£m	
Average month-end net (debt)/cash balance	(4)	95	-

Earnings per share* (p)

136.2p -13%

2013	136.2
2012	156.8
2011	148.9

Dividend per share (p)

68.0p +3%

2013	68.0
2012	66.0
2011	64.0

Revenue has slightly decreased by 4% (£86m), mainly as a result of the 5% reduction in our Construction revenues.

This was a result of poor weather in the first quarter of this calendar year causing delays and pushing revenues into the 2014 financial year. We also experienced a change in the mix of activities. UK building revenue decreased to approximately £1bn, as we maintained a focus on the quality of work we pursued; however, this reduction was partially mitigated by growth in UK infrastructure and overseas revenues.

In Services, all three businesses, housing maintenance, FM and environmental, achieved revenues at similar levels to last year, totalling £437m. This result reflected our success in renewing existing contracts and securing new business, while acknowledging the continued budget constraints faced by many public sector customers.

The revenue from our Property division results from the ongoing progress of our combined £1.5bn property development and mixed-tenure housing pipeline and the level of private housing sales achieved.

Operating profit* including joint ventures was 6% lower than last year at £69.7m mainly as a result of the lower contribution from the Construction division.

The operating margin* in Construction of 2.3% was a strong performance in today's market. It reflected the increasing proportion of UK infrastructure and overseas operations, the selective approach we have to new work and the prudent profit recognition policy we operate.

In Services, we achieved an operating margin* of 4.4%, in line with our expectations and included a higher level of bidding and mobilisation costs following the success in securing major schemes, such as Circle and East Sussex.

The Property division, which includes our property development activities, the £4.3m operating profit of our housing businesses, and the disposal profits from selling four of our PFI investments, contributed £20.5m of the total Group operating profit; a similar level to last year. The property development business achieved its target of 15% return on capital and our PFI investments were replaced at a similar rate to the disposals.

Detailed information on the operating performance of each of the divisions is provided within the operational review.

The total corporate cost of £0.5m has decreased compared with 2012 mainly due to a pension credit that related to the Group's defined benefit pension schemes, partially offset by higher IT expenditure and the costs involved in establishing the new Group website.

This pension credit was a direct result of changes in the underlying pension assumptions, in particular the discount rate and the expected return on assets.

The Group's net finance cost, analysed below, included interest payable arising from an average month-end net debt balance of £4m (2012: net cash £95m) after considerable investment during the year, and reflected the timing of our property transactions, some of which completed in the last quarter of the financial year.

Corporate costs

	2013 £m	2012 £m	Change £m
Unrecovered overhead	(1.5)	(0.6)	(0.9)
Pension credit/(charge)	1.0	(2.3)	3.3
Total	(0.5)	(2.9)	2.4

Net finance costs

	2013 £m	2012 £m
Net interest (payable)/receivable on operating cash balances	(0.1)	1.0
Interest payable and fees on committed borrowings	(3.0)	(2.0)
Unwinding of discount on long-term liabilities and finance leases	(3.2)	(3.4)
	(6.3)	(4.4)

* Underlying operating profits and margins, pre-tax profits and EPS are stated before amortisation of intangible assets relating to contract rights of £3.4m (2012: £3.4m) and exceptional items totalling £17.0m (2012: £3.6m).

“Overall, the Group has invested approximately £77m during the year in its own growth”

During the year, we considerably strengthened our capital structure as described in the ‘Treasury facilities and policies’ section on page 39. These changes follow on from the renegotiations of our revolving credit facilities last year and have therefore increased the interest payable and fees on committed borrowings to £3.0m for the year.

The unwinding of the discount on long-term liabilities was mainly a result of the Lloyds property portfolio acquisition in April 2011; the final consideration payment of £26m is due to be paid in October 2013.

Profit before tax* decreased by 9% to £63.4m (2012: £70.0m). This is stated before minority interests of £1.0m (2012: £1.1m). The minority interest relates to the share of profits of our housing maintenance business which are attributable to contracts with local authorities.

The Group’s effective tax rate* including joint venture tax on joint venture profits, has increased from 13% last year to 14%, approximately 9% below the standard corporation tax rate. This low rate did not relate to aggressive tax planning schemes but reflected the benefit of the Group’s prudence in the past, the contribution from selling four of our PFI investments and the reduction in the standard corporation tax rate.

Earnings per share* was 13% lower than last year at 136.2p (2012: 156.8p) as a result of the lower underlying profits and the increase in the weighted average number of shares. The two key components of the increase in weighted number of shares were the scrip dividend alternative that we offer our shareholders and our employee Save As you Earn scheme.

Exceptional items

Exceptional items amounted to a charge before tax of £17.0m (2012: £3.6m), as follows:

	2013 £m	2012 £m
Restructuring programme	(10.1)	–
Closure and discontinuation of scaffolding and related businesses	(1.9)	–
Loss on disposal of the tower crane and other discontinued businesses	(3.2)	–
Costs relating to the acquisition of May Gurney Integrated Services plc	(1.8)	–
Disposal of the majority of the plant business and related costs	–	(3.2)
Acquisition of 50% of Biogen (UK) Limited	–	(0.4)
Total exceptional items	(17.0)	(3.6)

There were three key areas of this year’s exceptional charge.

> £12.0m relating to the comprehensive restructuring programme mainly in the Construction division, which is predominantly complete. It has resulted in an 8% reduction in the staff cost base to ensure we maintain our Construction operating margins at around 2%. More specifically, £1.9m of these costs related to the closure of the scaffolding, joinery and temporary electrical businesses, while the remainder included office rationalisation and associated staff reductions. We will however, ensure the business retains its geographical spread and local presence;

> £3.2m relating to the disposal of the tower crane business, which completed in August 2013. The costs associated with the transaction were recognised in the year ended 30 June 2013 and comprised the loss on disposal of some of the fixed assets, together with transaction and redundancy costs; and

> £1.8m of acquisition costs relating to the May Gurney transaction.

The cash outflow during the year in respect of the above was approximately £11m.

* Underlying operating profits and margins, pre-tax profits and EPS are stated before amortisation of intangible assets relating to contract rights of £3.4m (2012: £3.4m) and exceptional items totalling £17.0m (2012: £3.6m).

Cash performance

The Group delivered a solid cash performance, with an average month-end net debt balance of £4m after considerable investment across the Group and the completion of a number of our property transactions in the last quarter of the financial year.

This performance produced a net cash position at 30 June 2013 of £60m (2012: £129m) after deducting £92m relating to the \$100m (£62m) US private placements and the £30m Funding for Lending Scheme loan. Further details of the new facilities are provided in the 'Treasury facilities and policies' section on page 39.

Overall, the Group has invested approximately £77m during the year in its own growth, including mining land, options and equipment, refuse vehicles and ongoing investment in the Property division, including Solum, our joint venture with Network Rail, and Biogen, our anaerobic digestion business.

Within the Group cash balance at 30 June 2013, Construction at £320m and Services at £30m represented resilient performances. In addition to underlying trading, these performances included approximately £20m of capital and investment related expenditure, a £9m cash effect of the restructuring activities and a working capital outflow of £17m mainly in Construction. Our working capital environment remains challenging as more stringent supply chain payment terms continue to be introduced and due to the changing mix of construction workload with more infrastructure projects which are typically of a target cost, reimbursable nature. It is reassuring to see, however, that the working capital trends that particularly affected our UK building operations in the first six months of the financial year did not significantly affect the second half of the year.

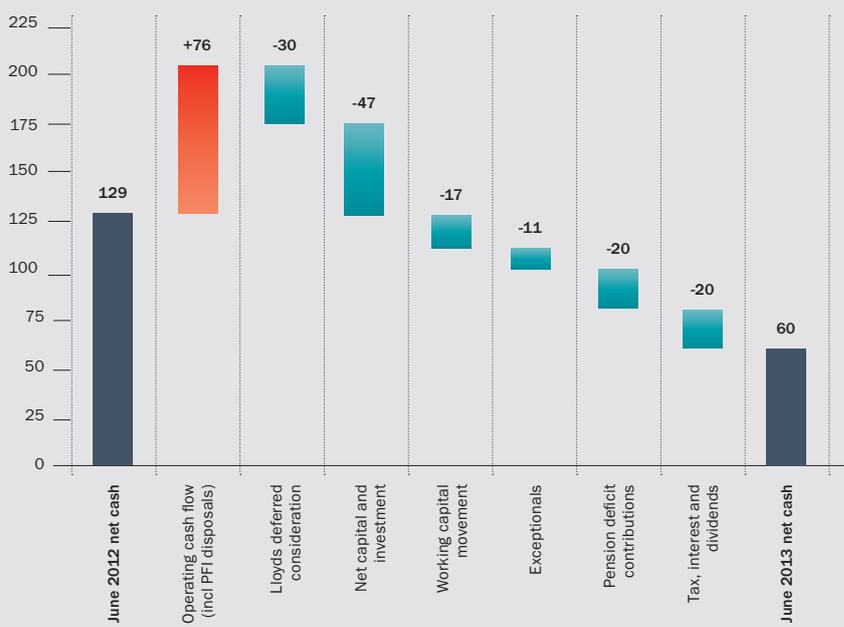
In Property, the net debt position of £40m reflects our ongoing investment strategy to increase the cash deployed in our property development business to £100m, which will be achieved during the next 12 months as we progress with our £1.1bn development pipeline. The net debt position across our housing businesses reduced to £226m following unit and land sale receipts, partially offset by investment in new housing land and an increase

in work in progress on mixed-tenure sites, which is a growing business with a forward pipeline of work of approximately £400m.

The Group's cash balances at 30 June 2013 included £81m (2012: £85m) held in joint contracting agreements, overseas bank accounts and other cash arrangements which is not readily available to the Group until the contracts near completion. The liquid cash position is also affected by seasonal, monthly and contract-specific cycles.

Cash performance (£m)

The graph below shows the key movements in the Group's net cash position during the year.



Order books

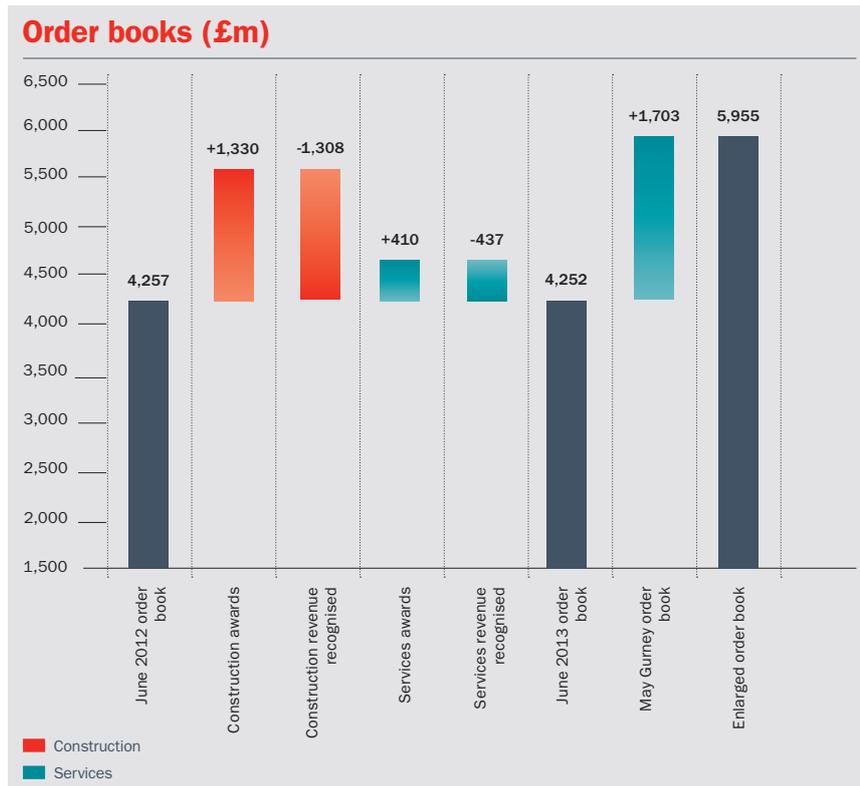
We have maintained our order books in Construction and Services at a combined level of more than £4bn, as shown in the table below. This means we enter the new financial year in a strong position with all of the Construction division's targeted revenue and 95% of the Services division's targeted revenue for 2014 secure and probable.

The Services division secured and probable position is in line with the equivalent position last year while Construction is at least 10% ahead demonstrating the strength of these businesses particularly in the current trading environment.

With the addition of May Gurney (£1.7bn), our enlarged order book approaches £6bn, and in July 2013, we were named preferred bidder on the Mersey Bridge project, adding a further £150m to the Construction order book figures below.

At 30 June	2013 £m	2012 £m
Construction	2,229	2,207
Services	2,023	2,050
Total	4,252	4,257

“With the addition of May Gurney (£1.7bn), our enlarged order book approaches £6bn”



Dividend policy

We continue to maintain our progressive dividend policy and taking into account the performance of the Group, the level of order books and its strong capital structure, the Board has recommended a final dividend of 46.5p, making the full year dividend 68p, an increase of 3% on the total paid in respect of 2012 (66p). This reflects the confidence in the business going forward and is 2.0 times covered by underlying earnings per share.

Treasury facilities and policies

As at 30 June 2013 the Group had revolving credit facilities, totalling £120m, an uncommitted £20m overdraft facility and long-term debt of £92m, all managed by the centralised treasury function.

During the year we considerably strengthened our capital structure. In December 2012, we completed £62m (\$100m) of US private placements (USPP) for seven and ten-year terms, which serviced the expiration, in February 2013, of our previous £30m ten-year USPP and, in January 2013, we secured a £30m loan under the Government's Funding for Lending Scheme, over four years. These changes follow the renegotiation of our revolving credit facilities last year.

Historically, Kier has operated with a relatively ungeared balance sheet. However, as customers have become more conscious of the need to manage their working capital, so have the demands on construction and services company balance sheets. Accordingly, we have extended our facilities over the medium term to manage this changing requirement for funding, and to provide capacity for ongoing investment across the Group.

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 its 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 limited number of overseas operations in different currencies. Currency exposure to overseas assets is hedged through inter-company balances and borrowings, so 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 completed to buy and sell foreign currency.

Balance sheet

Total net assets at 30 June 2013 were £158m (2012: £154m) and included intangible assets of £30m (2012: £29m) of which £13m (2012: £11m) related to contract rights.

Corporate activity

During the period from July 2012 to August 2013, we completed and announced three transactions as follows:

- > In August 2012, we completed our investment in Biogen (UK) Limited for a maximum total investment of £24.4m, of which £5.4m was invested on completion and a further £2.5m in December 2012. The remaining £16.5m is scheduled to be invested over the next three years.
- > In July 2013, we completed the acquisition of May Gurney for a consideration of £223m. Further details are in the 'May Gurney' section on page 41.
- > In August 2013, we completed the disposal of our tower crane business for approximately £5m, in line with our strategy of withdrawing from non-core operations.

Total net assets

£158m

(2012: £154m)

Inventories

At 30 June 2013, residential land and work in progress totalled a combined £249m, a decrease of £7m compared with the June 2012 balance of £256m. This decrease reflects unit and land sales over the year, partially offset by purchases of new housing land and further investment in work in progress in our mixed-tenure housing business.

At 30 June 2013, our land bank comprised 4,005 plots, down from 4,180 at 30 June 2012, all with planning permission. It remains our focus to reduce the cash locked up in our land and work in progress for future investment in the Group. As we have stated previously, the majority of our land was purchased before 2008 and therefore we do not anticipate recognising profit from land disposals, the focus being on cash generation.

Analysis of inventories

At 30 June	2013 £m	2012 £m
Residential land	127	132
Residential work in progress	122	124
Property land and work in progress	73	86
Other work in progress	77	53
Total	399	395

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 calculated in accordance with IAS 19.

At 30 June 2013, the net deficit of the Kier Group Pension Scheme was £37m (2012: £45m). The market value of the scheme's assets was £784m (2012: £722m) and the net present value of the liabilities was £832m (2012: £781m). The decrease in the net deficit was a result of changes in the key assumptions, particularly the higher than expected asset returns together with increased contributions.

We continue to progress with our recovery plan of additional annual deficit contributions of £8m and we make available our Property and PFI investments where appropriate. In June 2013 we completed the disposal of certain properties located in Sydenham, London for £46m to Kier Sydenham, a limited partnership, 50% of which is owned by Kier, with the remaining 50% owned by the trustees of the Kier Group Pension Scheme. The Group is committed to continuing to support the funding position of the scheme.

At 30 June 2013, the scheme relating to Kier Sheffield LLP showed a net

deficit position of £1m (2012: net surplus £1m). Note 8 to the financial statements includes a sensitivity analysis that highlights the impact of changes to the key assumptions to the Kier Group Pension Scheme and the Kier Sheffield LLP Pension Scheme. A net pension credit of £1.0m (2012: net pension charge £2.3m) has been reported in the income statement in accordance with IAS 19.

IAS 19 re-representation

The new pensions accounting will come into force for us for the June 2014 financial year, and will therefore require restatement of the 2013 figures, as comparatives. The expected return on scheme assets and the interest cost on scheme liabilities, currently reported in the income statement, will be replaced with an interest charge on the net deficit.

The table below highlights the £17m income statement re-representation for the June 2014 financial year, and the comparative figures for the June 2013 financial year will change by a similar amount.

The difference of £17m will be re-presented in the statement of comprehensive income. It should be noted however, that this accounting change has no impact on cash and no impact on the pension deficit. It is simply a re-representation of the pension figures.

IAS 19 re-representation

	2014 Current £m	2014 New £m	Change £m
Service cost	(13)	(13)	
Expected return on scheme assets (June 2013: 6.6%)	61		
Interest cost on scheme liabilities (June 2013: 4.7%)	(47)		
Interest on net deficit (June 2013: 4.7%)		(3)	
Total	1	(16)	(17)

May Gurney

The acquisition completed on 8 July 2013 and 14.7m new shares were issued making up the majority of the purchase price consideration, at approximately £184m. The cash component of the consideration of approximately £35m (excluding dividend payments of £3.9m to the shareholders of May Gurney Integrated Services plc) was serviced by a new £50m four-year term loan.

When combined with the transaction and integration costs, the majority of which will be accounted for during the 2014 financial year, Kier expects to

have a manageable net debt position of approximately £100m. The enlarged Group has £480m of facilities providing a robust capital structure, the terms of the principal facilities being consistent with the pre-existing Kier facilities.

The integration is progressing well and we are on track to deliver the cost synergies as planned. In addition, we are completing a comprehensive review of the fair value of the assets and liabilities and will provide a full update, together with any adjustments taken, with our interim results in February 2014.

Going concern

The directors' report states that appropriate enquiries have been made regarding the level of resources to continue in operational existence for the foreseeable future and the chief executive's review highlights the activities of the Group and those factors likely to affect its future development, performance and financial position.

The Group has considerable financial resources, committed banking facilities, long-term contracts and strong order books, and for this reason the directors have continued to adopt the going concern basis in preparing the Group's financial statements.

Haydn Mursell
Finance Director

Finance facilities

Facility type	Kier (£m)	May Gurney (£m)	Status re May Gurney arrangements	Combined Group (£m)
Existing:				
RCF	120	23	cancelled	120
Overdraft	20	25	retained £20m	40
FLS loan	30			30
USPP	62			62
Leasing	15	93	retained	108
New:				
RCF				70
Term loan				50
Total	247	141		480

Business risks

The key to the continued success of the Group's business strategy is its ability to identify and manage effectively the risks to its businesses and operations. The Group's approach is to identify the key risks and then assess the effectiveness of controls to mitigate the impact and likelihood of these risks occurring.

How the Group manages risk and assurance

The Board is responsible for the Group's system of risk management and internal controls and the Group risk management framework, which sets out the mechanism and reporting structure to ensure that key risks are continually monitored and any action plans to mitigate the risks are reviewed. A Group assurance map is used to co-ordinate the various assurance providers within the Group.

The Board has delegated to the Risk Management and Audit Committee the responsibility for reviewing the effectiveness of the Group's internal controls, including the systems established to identify, assess, manage and monitor risk and provide assurance. In addition to the ongoing monitoring of risk and controls, a report detailing the key risks, together with an assessment of the controls in place to mitigate these risks and any action plans, is prepared annually and reviewed by the Risk Management and Audit Committee. The last report was prepared in March 2013 and reviewed at the June 2013 committee meeting. The Board has concluded that the Group maintained sound risk management and internal control systems throughout the year ended 30 June 2013.

Other processes of assurance are managed through the Group's standing orders, the Executive Management Team, a range of Group policies and several central function committees (including the Group Corporate Responsibility Steering Committee and the Group Safety, Health and Environment Steering Committee, both being chaired by the chief executive and reporting regularly to the Board).

Principal risks

The nature of the industries and the business environment in which the Group operates are inherently risky. Although it is recognised that it is not possible to eliminate all such risks and uncertainties, the Group has well-established risk management and internal control systems to manage them, which have also helped the Group respond to the changing business environment and the challenges presented during the year.

As a result of the comprehensive operational review of the business and the integration of May Gurney, the Group is experiencing a period of organisational change. These changes impact on a number of the Group's principal business risks which are described on the following pages, particularly those associated with people, health and safety, reputation and information technology. These risks have been identified by the Board and the Risk Management and Audit Committee as requiring particular focus and a steering group, led by the chief operating officer and reporting regularly to the Board, has been established to address them and ensure that appropriate controls are in place to mitigate them.

Our risk management process

The Group's risk management framework requires all divisions and operating businesses within them to identify and assess the key risks facing them which could impact on their ability to deliver their objectives. The Group, the divisions and the operating businesses maintain risk registers which are used to document the key risks facing the business, together with an assessment of the likelihood and impact of each risk occurring as well as an assessment of the effectiveness of the key controls in place to mitigate the risk. Action plans are developed and put in place to mitigate potential exposures. These risk registers are regularly reviewed to identify new risks as they arise and to monitor the action plans.



Financial and legal risks

Risk description

Legal and regulatory

The Group is subject to a number of complex, demanding and evolving legal and regulatory requirements. A breach of laws or regulations could lead to legal proceedings, investigations or disputes resulting in a disruption of business, ranging from additional costs incurred on a project to civil and/or criminal penalties as well as reputational damage.

Investment

The Group recognises that there are risks associated with the investments which it may choose to make. This is particularly the case when the Group invests in new market sectors or acquires new businesses.

Pensions

In relation to its defined benefit scheme, the Group is exposed to funding risks arising from improvements in longevity, unfavourable economic conditions and investment performance. Where the actual outcomes are different to the actuary's assumptions, additional funding may be required to meet the cost of promised pension benefits.

Finance and bonding facilities

The Group's long-term business is dependent upon cash resources, facilities and the ability to provide performance and other bonds as necessary.

Macro-economic climate

The order books for the Group's Construction and Services divisions are dependent upon the level of expenditure in the public sector and the availability of credit for private sector expenditure. Financial markets continue to be dominated by developments in the Eurozone area. In the UK, credit growth remains subdued with lending conditions facing individuals and companies continuing to tighten. In addition, the impact of the recent extension to the asset purchase programme remains uncertain, as do the effects of the introduction of the Funding for Lending Scheme and the 'UK Guarantees' scheme for infrastructure funding. Instability in global exchange rates could significantly escalate material and fuel prices, thereby putting pressure on some project cost forecasts.

Mitigation

The Group monitors and responds to legal and regulatory developments in the areas in which it operates. It is the Group's policy to require that all of its subsidiaries, employees, suppliers and subcontractors comply with applicable laws and regulations. Training is provided on relevant areas of law and regulation, including e-learning courses, to keep all parties fully aware of their responsibilities. Contracts entered into by the Group are subjected to a review process to ensure that contractual risks are identified and, wherever possible, mitigated appropriately.

The Group adopts a selective approach to making investments (for example, PFI projects) and seeks to mitigate the associated risk. For example, it makes investments in sectors in which it has established construction and facilities management expertise. When investing in a new sector or business, the Group will conduct due diligence on the risks relating to the sector or business, using both internal and external resources and advice, and these risks and their mitigation will be considered as part of the Group's review and authorisation process.

Steps have been taken over time to reduce the volatility and extent of the Group's funding exposure, including closing the defined benefit scheme to new joiners in 2002, the introduction of an annual upper limit on salary increases which count for defined benefits purposes in 2009 and investment in a portfolio of inflation and interest swaps to mitigate the financial impact of adverse moves in prevailing rates.

The trustees of the Kier Group Pension Scheme and the Group Board regularly review the effectiveness of these measures and consider further liability management opportunities.

Cash forecasts and balances are prepared regularly so as to provide up-to-date and accurate information on the Group's cash position. Borrowing facilities are in place which have been recently renegotiated and extended. The Group has strong, long-term relationships with its bondsmen and has an in-house team which monitors headroom and advises on bond terms and conditions.

The Group has created a structure to manage and mitigate risk with the following key components:

- > a wide geographic regional network of offices across the UK providing strong integration into local communities, its client base and supply chain;
- > a strong level of framework agreements and partnerships with government, local authorities and the private sector; and
- > a strong sector diversity allowing it to react to evolving opportunities in the marketplace.

The Group also carries out monthly and quarterly reviews of its workload and forecasts its overhead levels as a percentage of future work in order to maintain a steady ratio of overhead costs to revenue. Fuel and other materials that are in high demand, such as steel, are hedged or forward-purchased when deemed necessary.

People and reputational risks

Risk description

People

The Group is dependent on members of its senior management team and on a flexible, highly skilled and well-motivated workforce and believes its future success will depend, in part, on its ability to attract, develop and retain its people. If the Group does not succeed in attracting, developing and retaining skilled people it may not be able to grow the business as anticipated.

Health, safety and environmental

The Group's activities require the continuous monitoring and management of health, safety and environmental risks. Failure to manage these risks could cause injury to its employees and subcontractors and could expose the Group to significant potential liability and reputational damage.

Reputation

The Group's ability to tender for new business and its relationship with its range of customers, supply chain partners, its employees and other stakeholders depends in large part on the good reputation that it has established and how it is perceived by others.

Mitigation

The Group monitors staff turnover closely and pay and conditions are reviewed regularly against the prevailing market and benchmarked to ensure that we remain competitive.

Succession planning and staff development are key at all levels in the Group. The Group has a performance review process which is designed to assist in the career development of its staff and also to identify potential successors to roles within the Group (including at senior management level).

Detailed policies and procedures exist to minimise such risks and are subject to review and monitoring by the operating businesses and Group. All operating businesses have a director who is responsible for coordinating health and safety activities.

In order to protect and enhance its reputation, the Group has a robust series of business ethics, sustainability and compliance policies that help deliver the Group's corporate responsibility programme, which addresses issues such as health and safety, environmental impact, climate change, employees, customers and supply chain and community engagement.

Operational risks

Risk description

Contract and build

The Group carries out several hundred contracts annually and the risks to which the Group is exposed are dependent upon the nature of the work, the duration of the contract and the legal form of the contract.

Services

The Services division enters into a large number of contracts each year, the risks associated with which depend, in particular, on the nature of the work being undertaken and the duration of the contract. Typically, the length of a contract will be greater than those entered into by the Construction division and, in addition to risks relating to contract performance, may contain risks in relation to the transfer of employees and other associated issues.

Information technology

The efficient operation of the Group is increasingly dependent upon the proper operation, performance and development of its IT systems. Failure to manage or integrate IT systems or failure to successfully implement changes in IT systems could result in a loss of control over critical business information and/or systems. This, in turn, could impact the Group's ability to fulfill its contractual obligations.

Land and property development acquisition

The cost and quality of property and land is fundamental to the profitability of the Group's property development and housing business.

Counterparty

The Group depends, for its success, on the stability of its customers, joint venture partners, suppliers, subcontractors, funders, bondsmen and insurers. Failure in these counterparties could result in non-collection of amounts owed or disruption and delays to contract progress.

Business continuity

The Group faces a number of risks which are, in large part, beyond its control. Its business and operations may be interrupted by natural disasters or any other disasters which may have the potential to affect adversely the Group's performance.

Mitigation

The Group's appetite for very long-term, large, competitively tendered construction contracts is limited, driven by the desire to maintain quality of workload and manage risk. Tenders for contracts are subject to approval by the Board, the chief executive and the finance director or divisional directors, depending upon the value and nature of the contract. Contracts in progress are controlled and managed through the Group's operating structure and procedures, including rigorous and regular review of the forecast revenue and costs to complete.

The Services division operates a contract review and tender adjudication process to ensure that risks are identified and, wherever possible, mitigated. The tender process is as described above under "Contract and build". Similarly, contracts in progress are controlled and managed as described above under "Contract and build".

Group IT centrally manages the majority of systems across the Group. Other IT systems are managed locally by experienced IT personnel. Significant investments in IT systems are subject to Board review and approval. In addition, the Group has an Information Security Committee which focuses on data security.

Site evaluation is a key process and site appraisals are carried out in detail, including using external advice where appropriate. Land and development acquisitions are subject to approval by the Board, the chief executive and the finance director or divisional directors depending upon the value of the land. Developments in progress are controlled and managed through the Group's operating structure and procedures including rigorous and regular review of the forecast financials and sales activity. The Board allocates capital on a portfolio basis ensuring diversification and the efficient use of resources within the Group.

In the case of the Property division, development risk is controlled by ensuring construction generally commences once the division has either pre-sold or pre-let key elements of the development.

The Group assesses the financial strength of counterparties before entering into contract and structures payments so as to mitigate its financial exposure to them for the duration of our relationship. Where the Group is particularly dependent upon the continued financial strength of the providers of key financial services to the Group, it takes steps to spread this exposure across a range of counterparties so as to diversify risk.

The Group has in place a number of business continuity plans at site and business unit level which are regularly reviewed and monitored to ensure their continued effectiveness. The purpose of these plans is to ensure that, wherever possible, the relevant project or business can continue to operate effectively after the occurrence of a disaster or an adverse event.

Board of Directors



1. Phil White CBE (64) ■ ■ ■

Non-executive chairman

Appointed non-executive chairman of the Group in November 2007, having joined as non-executive director in July 2006. He served as chief executive of National Express Group plc from January 1997 to September 2006. He is a chartered accountant and has extensive experience of both listed and private companies. He is currently chairman of Lookers plc and The Unite Group plc and a non-executive director of Stagecoach Group plc and Vp plc. He is also a member of the Nomination Committee and the Remuneration Committee.

2. Paul Sheffield (52)

Chief executive

Joined the Group as a graduate engineer in 1983 with a degree in civil engineering. His early career saw him work on a wide range of construction projects around the world, including power and desalination plants, transport schemes, commercial building projects and a dam. As a project manager through the 1990s, he ran major infrastructure projects in London, Saudi Arabia and Hong Kong before joining the board of the Group's Construction division in 1998. In October 2005, he was appointed to the Board with responsibility for all of the Group's construction activities and was appointed chief executive in April 2010. He holds overall responsibility for safety, health and environmental matters.

3. Haydn Mursell (42)

Finance director

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

4. Steve Bowcott (58)

Chief operating officer

Re-joined Kier in January 2007 as a director within the Construction division. He was appointed to the Board in July 2010 and was appointed as the chief operating officer in July 2013. He has operational responsibility for the Group's construction and services operations. He has over 35 years' experience in building, civil engineering and utilities with experience in both the UK and overseas and he is a member of the CBI Northern Committee.

5. Richard Bailey (62) ■ ■ ■ ■

Non-executive

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



■	Risk Management and Audit Committee
■	Remuneration Committee
■	Nomination Committee
□	Safety, Health and Environment Committee

6. Chris Geoghegan (59) ■ ■ ■ ■

Non-executive

Appointed to the Board in July 2007. He joined the Board of BAE Systems plc in July 2002 as chief operating officer with responsibility for all European joint ventures and UK defence electronics assets. He is non-executive chairman of Volex plc and SIG plc, a Fellow of the Royal Aeronautical Society and a past President of the Society of British Aerospace Companies. He is the senior independent non-executive director, the chairman of the Remuneration Committee and a member of the Risk Management and Audit and Nomination Committees.

7. Amanda Mellor (49) ■ ■ ■ ■ □

Non-executive

Appointed to the Board in December 2011. She is currently the Group Secretary and Head of Corporate Governance of Marks and Spencer Group plc, having previously been Head of Investor Relations at Marks and Spencer and Director of Corporate Relations at Arcadia Group plc. Amanda was recently appointed to the Council of Leeds University and is also a visiting professor. She spent her early career in investment banking at James Capel and Robert Fleming. She was accredited as a Legal Mediator in 2002. She is a member of the Remuneration, Risk Management and Audit and Safety Committees and chairs the Nomination Committee.

8. Nick Winser (53) ■ ■ ■ ■ □

Non-executive

Appointed to the Kier Board in March 2009. He joined the board of directors of National Grid in April 2003 and is responsible for the company's business in the UK. He was previously chief operating officer of US transmission for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming director of engineering in 2001. He is Chairman of the IET's Power Academy, Chairman of CIGRE UK and President of the European Network of Transmission System Operators for Electricity. He is the chairman of the SHE Committee and a member of the Risk Management and Audit, Nomination and Remuneration Committees.

9. Hugh Raven (41)

General counsel and Group company secretary

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

Directors' report

Introduction

The directors present their annual report and audited financial statements as at, and for the year ended, 30 June 2013.

This directors' report should be read in conjunction with the chairman's statement, the chief executive's review, the corporate governance statement and the directors' remuneration report, each of which is incorporated by reference in (and shall be deemed to form part of) this directors' report to the extent required by applicable law or regulation.

Principal activities

The Group's principal activities during the course of the year were construction, services and property.

A review of the Group's business and progress during the year is included within the chairman's statement on pages 4 and 5, the chief executive's review on pages 8 to 11 and the operational review on pages 12 to 25.

Results and dividends

The Group's profit for the year after taxation and exceptional items was £38.6m (2012: £55.3m). An interim dividend of 21.5p per share (2012: 21.5p), amounting to £8.5m (2012: £8.2m), was paid on 17 May 2013. The directors propose a final dividend of 46.5p per share (2012: 44.5p per share), amounting to £25.4m (2012: £17.4m), payable on 27 November 2013 to shareholders on the register of members on 20 September 2013.

Directors

Biographical details of the directors of the Company are shown on pages 46 and 47. Details of directors' interests in the Company's shares are disclosed in the directors' remuneration report on pages 58 to 67.

Qualifying third party indemnities

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

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

The UK Corporate Governance Code

A statement on the Group's corporate governance is set out on pages 52 to 57.

Going concern

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

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

Further information relating to the financial position of the Group, its cash flows, liquidity position and borrowing facilities is given in the financial review on pages 34 to 41.

Charitable and political donations

During the year, the Group's donations to charity in the United Kingdom were £58,000 (2012: £122,000), principally to local charities serving the communities in which it operates. The Group has considerable involvement in such communities, as described in the corporate responsibility report on pages 26 to 33. In addition, the Group has entered into a partnership with Barnardo's, further details of which are referred to in the corporate responsibility statement.

No political donations were made during the year (2012: nil).

Financial instruments

Details of the financial risk management objectives and policies of the Group, together with its exposure to material financial risks, are set out in notes 1 and 27 to the consolidated financial statements.

Research and development

The Group undertakes research and development activity in creating innovative construction techniques and design integral to the delivery of its projects. The direct expenditure incurred is not separately identifiable, as the investment is usually contained within the relevant project.

Employees

The companies in the Group are equal opportunities employers. The Group gives consideration to applications for employment made by disabled persons (having regard to their particular aptitudes and abilities) and encourages and assists, whenever practicable, the recruitment, training, career development and promotion of disabled people and the retention of, and appropriate training for, those who become disabled during the course of their employment and who can be employed in a safe working environment. The Group's approach to employee involvement, equal opportunities, health and safety and the environment is set out in the corporate responsibility report on pages 26 to 33.

The Group provides relevant information on matters of concern to employees through newsletters, video addresses, the Group's intranet, social media and formal and informal meetings with various groups of employees and management. These arrangements aim to achieve a common awareness on the part of employees on matters affecting the performance of the Group. The Group also consults with employees to ascertain their views in relation to decisions which are likely to affect their interests.

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

In addition, as a result of the acquisition of May Gurney, the Group operates The May Gurney Savings Related Share Option Scheme, which is similar to the Sharesave Scheme. Participants in this scheme have been offered the opportunity to exchange their existing May Gurney shares for new options over shares in the capital of the Company.

Policy and practice on payment of creditors

The Group agrees payments with its suppliers and subcontractors on an individual contract basis rather than following a code or standard on payment practice. The Group's policy is to abide by these agreed terms whenever the relevant Group company is satisfied that the suppliers or subcontractors have provided the goods or services in accordance with the contract terms and conditions. The aggregate amount owed to trade creditors by the Company at 30 June 2013 was nil (2012: nil).

Subsidiary trading companies within the Group, acting in accordance with the above policy, exhibit creditor days averaging 36 days (2012: 26) in respect of suppliers of invoiced goods and services and 33 days (2012: 19) in respect of certified amounts due to subcontractors. These figures exclude amounts not currently due for payment but which are included within trade creditors.

Share capital

As at 30 June 2013, the issued share capital of the Company comprised a single class of ordinary shares of 1 pence each. As at 30 June 2013, 39,848,072 shares in the capital of the Company were in issue. During the year, 102,669 shares were issued in relation to the scrip dividend alternative and 922,219 shares were issued in connection with the Sharesave Scheme. No other shares were issued during the year. As at 11 September 2013, 54,711,711 shares in the capital of the Company were in issue, the increase since 30 June 2013 arising principally as a result of 14,714,445 shares having been issued on 8 July 2013 in connection with the acquisition of May Gurney. Details of the Company's share capital are set out in note 24 to the consolidated financial statements.

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

Restrictions on transfer of securities in the Company

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

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

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

Substantial voting rights

As at 11 September 2013, the Company had been notified of the following interests in the ordinary share capital of the Company (being voting rights over such share capital), pursuant to Rule 5.1 of the Disclosure and Transparency Rules:

Standard Life Investments Limited	6.9%
Schroders plc	5.4%
Norges Bank	4.3%

Securities carrying special rights

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

Rights under employees' share schemes

As at 30 June 2013, RBC Trustees (Guernsey) Limited (RBC), as trustee of the Kier Group 1999 Employee Benefit Trust (the Trust), held 485,081 shares (approximately 1.1% of the issued share capital of the Company as at that date) on trust for the benefit of the employees of the Group. The Trust was established for the purposes of satisfying awards of shares made to individuals under the Group's remuneration and long-term incentive arrangements. During the year, RBC waived the dividends payable in respect of these 455,686 shares, but received the dividends in respect of further 29,395 shares (being the shares to which certain directors and senior managers are beneficially entitled as a result of their annual bonus being satisfied in part by an allocation of shares). RBC, in turn, transferred the dividends to the relevant directors and senior managers.

As at 30 June 2013, Computershare Investor Services PLC held 972,884 shares (approximately 2.4% of the issued share capital of the Company as at that date) on trust for the benefit of staff and former staff who are members of the AESOP.

Voting

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

Restrictions on voting rights

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

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

Appointment and replacement of directors

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

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

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

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

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

Amendment of Articles

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

Powers of the directors

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

Powers in relation to the Company issuing its shares

The directors were granted authority at the annual general meeting on 15 November 2012 to allot shares in the Company in accordance with section 551 of the Companies Act 2006 (i)

up to an aggregate nominal amount of £132,147 and (ii) up to an aggregate nominal amount of £264,295 in connection with a rights issue. The directors were also granted authority to allot shares non-pre-emptively and wholly for cash up to an aggregate nominal amount of £19,822. These authorities will expire on the date of this year's annual general meeting and resolutions to renew them will be proposed at the forthcoming annual general meeting. In addition, an ordinary resolution will be proposed to grant the directors the authority to continue to offer the scrip dividend alternative. In accordance with the requirements of investor protection committees, this authority is renewed every five years.

Powers in relation to the Company buying back its shares

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

Change of control

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

- > the Company's £120m revolving credit facility agreement dated 31 May 2012 entered into with HSBC Bank plc, Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Santander UK plc;
- > the Company's £30m term facility agreement dated 11 January 2013 entered into with Lloyds TSB Bank plc; and

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

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

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

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

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

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

Auditor

The Group's auditor, KPMG Audit Plc, has instigated an orderly wind-down of its business. The Board has therefore decided that KPMG LLP will be proposed as the Group's auditor for the financial year ending 30 June 2014 and a resolution relating to this appointment will be tabled at the forthcoming annual general meeting.

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

Annual general meeting

The annual general meeting of the Company will be held at 11.00 a.m. at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ on 14 November 2013.

This report was approved by the Board on 11 September 2013 and signed on its behalf by:

Hugh Raven Company Secretary

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Corporate governance statement

Introduction

The Board recognises the importance of high standards of corporate governance and is committed to managing the Group's operations in accordance with the principles set out in the June 2010 version of The UK Corporate Governance Code (the Code). The Company has complied with the Main Principles of the Code throughout the year. The Company has also complied with the Code Provisions set out in the Code throughout the year, except to the extent explained in this annual report.

The Board notes that a revised version of the Code was published in September 2012 (which is expressed to apply to accounting periods beginning on or after 1 October 2012) and intends to comply with this version of the Code as it considers appropriate during the financial year ending 30 June 2014.

Ian Lawson retired as a member of the Board with effect from 21 June 2013. For the remainder of the year, the Board comprised four executive directors and four independent non-executive directors, together with the chairman.

The current executive directors are: Paul Sheffield (chief executive), Haydn Mursell (finance director) and Steve Bowcott (chief operating officer). The Board believes that its current structure is satisfactorily balanced, with the independent non-executive directors having a substantial presence in Board debate, constructively challenging the executive directors and assisting in the development of strategy.

Matters considered by the Board during the year included:

- > the Group's strategy, budgets, structure and financing requirements;
- > the Group's annual and interim financial statements (taking into account the views of the Risk Management and Audit Committee);
- > the Group's interim management statements;
- > the efficiency of the Group's operating structure and cost base;
- > the implications of prevailing economic conditions and the appropriate strategy relating to them;
- > potential acquisitions and disposals, including, in particular, the acquisition of May Gurney;
- > the integration of May Gurney;
- > material operational issues and opportunities;
- > health and safety issues;
- > the Group's pension schemes;
- > material human resources issues affecting the Group, including succession planning and diversity both at Board level and throughout the Group; and
- > the Group's strategy with respect to disputes or proceedings (including the issues relating to the Castlepoint Shopping Centre car park, Bournemouth) or issues otherwise potentially adversely affecting the Group's reputation.

Board of directors

The Board is responsible to shareholders for the success of the Company. The Board develops the Group's strategy, monitors and reviews its business performance and controls risk. The Board has put in place reporting processes and other controls which are designed to ensure that it is provided with relevant information on a timely basis, which set authorisation limits and which reserve certain significant matters for the Board or its committees.

The Group's chairman, who leads the Board, is Phil White. The chairman is responsible for the Board's effectiveness and sets its agenda, ensuring that the directors receive accurate, timely and clear information. The chairman also facilitates the effective contribution of the non-executive directors and ensures a positive and constructive relationship between the executive and non-executive directors. The chairman is responsible for effective communication with shareholders and for ensuring that the directors continually update their skills and knowledge, and familiarity with the Group, in order to fulfil their roles. Phil White's other significant commitments are his roles as chairman of The Unite Group plc and Lookers plc and as a non-executive director of Stagecoach Group plc and Vp plc.

The Group's chief executive is Paul Sheffield, who is responsible for the operational management of the Group and is accountable to the Board for the implementation of the Group's strategy. The chief executive meets regularly with the other executive directors (focusing on a variety of matters, including strategy, the Group's cost base and overall efficiency, the integration of May Gurney, succession planning and other material issues facing the Group), the management of the Group's businesses and the Group's company secretary, human resources director and health and safety director.

The senior independent non-executive director is Chris Geoghegan. He is available to shareholders if they have concerns which contact through the normal channels of the chairman, the chief executive or the other executive directors has failed to resolve or for which such contact is inappropriate. In addition, the senior independent non-executive director is responsible for the appraisal of the chairman's performance. The Board considers Richard Bailey, Chris Geoghegan, Amanda Mellor and Nick Winsor to be independent directors. The chairman of the Board, Phil White, was also considered to be independent on his appointment.

A table of attendance of directors at meetings of the Board and its committees is set out on page 56. Outside the formal schedule of meetings, the non-executive directors met without the executive directors during the year.

All directors have access to the advice and services of the company secretary and the directors are also able to seek independent professional advice, if necessary, at the Company's expense. Training is available for new directors and subsequently as is considered necessary. All directors are subject to election by shareholders at the first annual general meeting following their appointment. Under the Articles, each director is subject to re-election thereafter at intervals of no more than three years. However, at the forthcoming annual general meeting of the Company, notwithstanding the provisions of the Articles, all of the directors will offer themselves for re-election in accordance with the Code. Executive directors are required to seek approval from the Board before accepting any external non-executive positions, although no such positions are currently held.

The executive directors' service agreements and the non-executive directors' letters of appointment are available for inspection at the Company's registered office and will be on display prior to and at the forthcoming annual general meeting.

Board performance evaluation

During the year, the chairman, with the assistance of the company secretary, conducted a performance evaluation of the Board.

The aim of the evaluation process was to obtain open and constructive feedback that would:

- > provide an insight into the Board's, and each individual director's effectiveness;
- > assist to develop an action plan to ensure that the Board operates as effectively as possible; and
- > establish a benchmark for measuring future progress.

The feedback confirmed that the directors believed that the Board operated effectively, with meetings generally including constructive and challenging debate. A report comprising the feedback received was produced by the company secretary and, together with an action plan to ensure the continued effective performance of the Board, was tabled and discussed at the Board meeting held in August 2013. A separate report relating to the performance of the chairman was also produced, with feedback being provided to the chairman by the senior independent non-executive director. The Board expects that its performance evaluation for the 2014 financial year will be externally facilitated.

In addition, throughout the year, the chairman of the Board held regular discussions with members of the Board and the company secretary to assess the performance of the Board, its committees and the individual directors. Actions arising from these discussions were implemented throughout the year.

Risk Management and Audit Committee

Members of the Risk Management and Audit Committee

- > Richard Bailey (chair)
- > Chris Geoghegan
- > Amanda Mellor
- > Nick Winsor

The Risk Management and Audit Committee comprises the non-executive directors. Richard Bailey, a chartered accountant with recent and relevant financial experience, is the chairman of the committee. The secretary of the committee is Hugh Raven.

The committee met four times during the year. These meetings were also attended by the Group finance director and the director responsible for internal audit. The KPMG audit engagement partner attended all of the meetings and met the chairman of the committee without management being present. The chairman of the Board is invited to attend the committee meetings and the executive directors attend when it is considered necessary or appropriate for them to do so.

The committee has clearly defined terms of reference which outline its objectives and responsibilities relating to financial reporting, internal controls, risk management and the application of appropriate accounting policies and procedures.

The committee is responsible for monitoring and reviewing the Group's internal audit function. The director responsible for internal audit meets the chairman of the committee to discuss the function and the Group's internal controls.

Corporate governance statement

Continued

During the course of the year, PwC was engaged as an outsourced internal audit and assurance provider to deliver specific expertise, experience and resource alongside the internal audit function.

The committee is also responsible for monitoring and reviewing the performance, independence and objectivity of KPMG, the external auditor.

The provision of non-audit services by KPMG over a predetermined cost threshold, other than tax compliance and routine taxation advice, must be referred to and agreed by the committee and any work costed below that threshold must be pre-approved by the Group finance director. These controls enable the committee to be satisfied that KPMG's objectivity and independence as auditor has not been impaired, notwithstanding the provision of non-audit services in the year.

The fees paid to KPMG during the year in respect of non-audit services were £1,177,000 (2012: £85,500), of which £50,000 related to advice in connection with the potential disposal of a non-core IT asset, £183,000 to advice in connection with the Group's organisational efficiency and cost base reduction project, £868,000 to due diligence and reporting accountants' advice in connection with the acquisition of May Gurney, £45,000 to the auditing of the Corporate Responsibility Annual Report and £31,000 to tax advice (and providing tax-related software licences). The audit fees for the year were £727,000. The total fees for non-audit services represented approximately 162% of the audit fees paid for the year (2012: 11%). All figures exclude VAT.

In relation to the Group's organisational efficiency and cost base reduction project, a further instalment of approximately £800,000 is currently estimated as being payable in the 2014 financial year, together with a final instalment of approximately £350,000 in the 2015 financial year. The total fees currently estimated to be payable to KPMG for their advice in respect of this project is, therefore, approximately £1.3m.

Before engaging KPMG in relation to the project, the Board conducted a tender process comprising three firms of an appropriate size and having recent and relevant experience. The Board considered that KPMG were the most appropriate in light of the size and complexity of the Group's business and operations, principally because of their recent and relevant experience (having conducted similar exercises within the construction sector) and the strength and depth of their resources.

Prior to the commencement of KPMG's work, the Board agreed a process with KPMG to ensure that an appropriate ethical wall was established between the audit function and the consultancy team engaged on the project.

KPMG were also engaged to conduct due diligence on May Gurney and also to act as reporting accountants on the transaction. In light of the accelerated timetable and the significance of the transaction to the Group, the Board decided that it would be appropriate to engage KPMG for both exercises.

Before engaging KPMG with respect to the potential disposal of a non-core IT asset, the Board also conducted a tender process, involving three potential advisers. It was decided that it would be appropriate to select KPMG because of its combined corporate finance and IT expertise, together with the extent of its general resources.

The committee acknowledges that the level of non-audit fees incurred during the year is significantly in excess of the audit fees for the year. The committee therefore wrote to, and met with, certain key shareholders to explain why it believed that it was appropriate to appoint KPMG with respect to the three projects described above. The committee will continue to liaise with shareholders to manage any concerns appropriately and to ensure the continued independence of the Group's auditors. As part of the audit process for the year ended 30 June 2013, KPMG has confirmed that, with respect to this period, it was independent within the meaning of applicable regulatory and professional requirements.

Matters considered by the Risk Management and Audit Committee during the year included:

- > reviewing and recommending for approval by the Board the annual and interim financial statements;
- > agreeing the scope and reviewing the results of the external audit;
- > reviewing the effectiveness of the Group's internal controls and risk management processes;
- > approving the internal audit plan;
- > reviewing progress against the internal audit plan and the key findings of the audits;
- > planning the integration of May Gurney and its risk management processes within the Group;
- > monitoring the effectiveness of the internal audit function; and
- > agreeing the scope of KPMG's audit, the level of remuneration paid to KPMG and the extent of KPMG's non-audit services.

The committee notes the changes to its responsibilities and the Annual Report disclosure requirements which were introduced by the September 2012 version of the Code and will take such changes into account (and those included in the Financial Reporting Council's Guidance on Audit Committees (September 2012 version)) as it considers appropriate during the financial year ending 30 June 2014.

The committee's terms of reference are available on the Company's website and on request from the company secretary.

Remuneration Committee

Members of the Remuneration Committee

- > Chris Geoghegan (chair)
- > Richard Bailey
- > Amanda Mellor
- > Phil White
- > Nick Winsor

The Remuneration Committee comprises the non-executive directors. Chris Geoghegan is the chairman of the committee. The secretary of the committee is Hugh Raven.

The committee met five times during the year. The meetings were also attended by the chief executive, the finance director and the Group's human resources director when it was considered appropriate for them to do so.

The committee makes recommendations to the Board on the Company's framework of executive remuneration and determines, on its behalf, specific remuneration packages for each of the executive directors. In doing so, it takes the advice of independent external consultants. Further information relating to the committee and its workings is contained in the directors' remuneration report on pages 58 to 67.

Matters considered by the Remuneration Committee during the year included:

- > approving the 2012 directors' remuneration report;
- > approving the bonuses paid to the executive directors in respect of the 2012 financial year;
- > reviewing the executive directors' remuneration and consulting with shareholders in relation to proposed changes for the 2014 financial year;
- > setting the performance measures relating to, and the quantum of, awards under the Group's long-term incentive plan to be made to the executive directors during the 2012 financial year; and
- > considering external market developments in executive remuneration and their effect on the Company's existing arrangements.

The committee's terms of reference are available on the Company's website and on request from the company secretary.

Nomination Committee

Members of the Nomination Committee

- > Amanda Mellor (chair)
- > Richard Bailey
- > Chris Geoghegan
- > Phil White
- > Nick Winser

The Nomination Committee comprises the Group's non-executive directors. Amanda Mellor is the chair of the committee. The secretary of the committee is Hugh Raven.

The committee met once during the year.

The committee is responsible for monitoring the composition and balance of the Board, making recommendations to the Board on new Board appointments and succession planning.

Matters considered by the Nomination Committee during the year included:

- > the structure of the Board following the acquisition of May Gurney;
- > the appointment of Steve Bowcott to the role of chief operating officer;
- > Haydn Mursell assuming operational responsibility for the Property division;
- > the performance of the executive directors; and
- > succession planning for the Board.

The committee's terms of reference are available on the Company's website and on request from the company secretary.

Safety, Health and Environment Committee (SHE Committee)

Members of the SHE Committee

- > Nick Winser (chair)
- > Amanda Mellor

The SHE Committee comprises Nick Winser and Amanda Mellor, although the executive directors of the Group and the health and safety director are invited, and expected, to attend meetings, unless they are notified to the contrary. Other non-executive directors, including the chairman, are invited to attend all or part of any meeting. The secretary of the committee is Hugh Raven. The committee met for the first time in February 2013 and also met in June 2013.

The committee is responsible for assisting the Board with respect to reviewing (i) the Group's strategy with respect to safety, health and environmental (SHE) matters, (ii) the Group's exposure to SHE risks and (iii) Group-wide SHE initiatives, policies and procedures and monitoring the Group's performance against SHE targets.

Matters considered by the SHE Committee during the year included:

- > the Group's accident incident rate, including the reasons for any material changes in the rate;
- > material new Group-wide initiatives, policies and procedures; and
- > May Gurney's SHE record and the integration of May Gurney's SHE policies and procedures within the Group's.

The committee's terms of reference are available on the Company's website and on request from the company secretary.

Corporate governance statement

Continued

Board and committee meetings

Details of the number of meetings of the full Board and its committees during the year are set out in the adjacent table. The table also sets out the number of Board meetings attended by each director and the number of committee meetings attended by each director as a member of the relevant committee during the year.

The executive directors are not members of the Board committees but are invited to attend meetings of these committees when it is considered necessary or appropriate for them to do so. For example, Paul Sheffield and Haydn Mursell attended the Risk Management and Audit Committee meetings in their respective capacities as chief executive and finance director and Paul Sheffield, Ian Lawson and Steve Bowcott attended both of the SHE Committee meetings.

Phil White is not a member of the Risk Management and Audit Committee but, as chairman of the Board, attended the committee's meetings during the year.

Risk management and internal controls

The Code requires that the directors review the effectiveness of the Group's risk management and internal control systems and that this review covers all material controls, including financial, operational and compliance controls.

The Board has overall responsibility for the Group's systems of risk management and internal control and for reviewing their effectiveness. As a result, the Board has put in place an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The Board considers that the Group's systems and controls, which have been developed and refined over many years, are appropriately designed to ensure that the Group's exposure to significant risks is properly managed. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not

	Board (10)	Risk Management and Audit (4)	Remuneration (5)	Nomination (1)	SHE (2)
Richard Bailey ¹	9	4	5	1	–
Steve Bowcott	10	–	–	–	–
Chris Geoghegan	10	4	5	1	–
Ian Lawson	10	–	–	–	–
Amanda Mellor	10	4	5	1	2
Haydn Mursell	10	–	–	–	–
Paul Sheffield	10	–	–	–	–
Phil White	10	–	5	1	–
Nick Winser	10	4	5	1	2

¹ Richard Bailey was unable to attend the Board meeting held on 15 May 2013 due to illness.

The key features of the Group's systems of risk management and internal controls include:

- > an established management structure operates throughout the Group, with clearly defined levels of responsibility and delegation of authority;
- > clearly defined operating guidelines and procedures with authorisation limits set at appropriate levels;
- > a comprehensive budgeting and forecasting process, which is regularly reviewed and updated;
- > a formal quarterly review of each division's year-end forecast, business performance, risk and internal control matters which is carried out by the directors of each division with the chief executive and finance director in attendance;
- > monthly management reporting, including regular comparison of actual results against latest forecasts;
- > established policies and procedures governing the Group's investment in land, property and other significant assets, including acquisitions and disposals. These include detailed appraisals, appropriate authorisation levels and Board approval depending on value or perceived exposure;
- > investment decisions and tenders for contracts being subject to approval by the Board, the chief executive and the finance director or divisional directors, depending on the value and nature of the investment or contract;
- > internal audits to assess the adequacy and effectiveness of internal controls. The scope of the internal audit work covers the key risks faced by the business and is supplemented by cyclical reviews of the core financial process. Internal audit findings are reported to the Risk Management and Audit Committee and the executive directors on a regular basis;
- > risk registers for each business unit highlighting key risks facing that business, together with an assessment of the effectiveness of controls to mitigate those risks;
- > an assurance-mapping process to ensure the coordination of risk assurance within the Group;
- > a process of risk and control self-assessment requiring all operating companies to review and confirm that appropriate internal controls are in place and operating effectively across the key risk areas. The findings of the assessment are reviewed by the Risk Management and Audit Committee;
- > reviewing and reporting of safety, health and environmental matters; and
- > the provision of a confidential method of reporting any suspected fraud or similar matter to the director responsible for internal audit, the company secretary or the Group's human resources director, as appropriate.

absolute assurance against material misstatement. In reviewing the effectiveness of internal controls, the directors have taken into account the Financial Reporting Council's 'Internal Control: Guidance for Directors' (formerly known as The Turnbull Guidance) and have considered the key risks and exposures within the Group. The Group has entered into a number of joint ventures, which are not controlled by a member of the Group: these joint ventures are not included for the purposes of the assessment of the Group's internal controls.

The Board receives regular reports relating to the Group's operating units to monitor their performance and business unit management teams are briefed on relevant issues arising at Board meetings.

During the course of a year, members of the Board visit a number of the Group's significant business units and the Board also monitors the control framework of each business. The Risk Management and Audit Committee reviews the appropriateness and effectiveness of the Group's internal controls and did not consider that any significant internal control failings or weaknesses were identified by the review conducted during the course of the year.

Relations with shareholders

The Company has a programme of regular communication and meetings with investors, investment analysts and brokers. This includes detailed presentations to investors, analysts and the media when the Company announces its annual and interim results, together with additional engagement following the release of its interim management statements. This programme assists the Board to understand the views of major shareholders about the Group, its performance and its strategic objectives. Independent feedback is also provided to the Board by analysts and institutional shareholders.

The Board uses the annual general meeting to communicate directly with shareholders and encourages their attendance at this event, where the chairmen of the Board's committees are present to answer questions. The chairman of the Board also meets regularly with individual shareholders to obtain their views on a variety of matters, as does the chairman of the Remuneration Committee in relation to remuneration matters.

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

The Group also regularly engages with a range of shareholders in relation to its corporate responsibility (CR) programme. During the year, it also liaised with a number of shareholders in relation to environmental, social and governance (ESG) issues including questions arising from the FTSE4 Good ESG ratings. The Group has continued to engage proactively with the ESG or responsible investment executives of a number of major institutional investors to seek their feedback on its CR reporting. As part of this process, the Group has again engaged KPMG to provide independent assurance for its 2013 CR Annual Report and is now reporting against the Global Reporting Initiative (GRI) standard C+.

The Group's website, which, during the year, was updated and re-branded, plays a significant role in its communication with investors, customers, its supply chain, the media and the general public. In addition, the Group also communicates via a range of social media tools, including Twitter and YouTube. For example, during the year, the chief executive delivers various trading updates via video announcements which also feature on the Group's YouTube site and have alerts and links via Twitter.

Directors' remuneration report

Introduction

This report has been prepared by the Remuneration Committee (the Committee) on behalf of the Board. This report complies with the Companies Act 2006, Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules.

In addition, the Company has chosen to comply with certain of the disclosure requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2012 (the New Regulations), although the New Regulations do not apply formally to the Company until the year ending 30 June 2014.

Shareholder consultation

During the year, a number of significant changes have occurred within the business, including:

- > in April 2013, the announcement of a recommended offer for May Gurney, the completion of which took place on 8 July 2013. During the discussions with management relating to the acquisition, shareholders indicated that it would be appropriate for the Committee to carry out a comprehensive review of executive remuneration at Kier, particularly in light of the size and nature of the enlarged Group; and
- > on 21 June 2013, the announcement of a number of changes to the Board, resulting in a revised structure which comprises three executive directors (previously, four) with increased responsibilities. With effect from that date, Ian Lawson retired from the Board, further details of which are provided later in this report.

The principal changes to the Board made in June 2013 were:

- > the introduction of the role of chief operating officer: Steve Bowcott has taken up this role, with operational responsibility for the construction and services businesses. The creation of this position will enable Kier to implement common processes and efficiencies across the Group; and
- > Haydn Mursell assumed operational responsibility for the Property division, in addition to his current responsibilities as finance director.

The Committee reviewed the executive directors' overall remuneration to ensure that it remains in line with the Group's remuneration policy and continues to support sustainable long-term value for shareholders. As part of the review, the Committee incorporated feedback received from its extensive consultation with the Company's significant shareholders on its proposed changes. Although the Committee acknowledges that shareholders may have differing views on remuneration matters, it was pleased to have received the support of the majority of the shareholders consulted.

2014 remuneration

The principal changes resulting from this consultation process, to be effective in the financial year ending 30 June 2014, are as follows:

- > Haydn Mursell and Steve Bowcott have both received salary increases commensurate with the significant increase in their responsibilities which resulted from both the acquisition of May Gurney and the restructuring of the Board described above;
- > the Committee considered it appropriate to phase the increases for Haydn Mursell and Steve Bowcott over two years, with both directors receiving 10% increases (to £378,000) with effect from 1 July 2013 and, subject to continued satisfactory performance, a further 6.5% (to £402,000), plus the average of any salary increases across the Group, with effect from 1 July 2014;
- > awards to the executive directors under the Group's long-term incentive plan in the year will be increased from 100% of salary to 150%, with the additional 50% opportunity relating to the return on capital employed by May Gurney; and
- > all executive directors will be encouraged to maintain shareholdings with a value of at least two times salary (currently, one times).

The maximum annual bonus opportunity will remain at 100% for the financial year ending 30 June 2014.

The Remuneration Committee

The Committee comprises the non-executive directors. The secretary of the Committee is Hugh Raven.

The Committee met five times during the year. Further details of the Committee are set out on pages 54 and 55.

The key responsibilities of the Committee include:

- > making recommendations to the Board on its executive remuneration policy;
- > determining specific remuneration packages for each of the executive directors on behalf of the Board; and
- > monitoring the remuneration packages of other senior members of management within the Group.

In undertaking these responsibilities, the Committee seeks independent external advice, as is considered necessary. During the year, the Committee was advised by its independent remuneration advisers, Kepler Associates (Kepler). Kepler provides no other advice, or services, to the Company. Kepler is a signatory to the Code of Conduct for Remuneration Consultants which has been developed by the Remuneration Consultants Group.

The Committee also seeks internal support and advice from the company secretary and the Group's human resources director. The Committee consults the chief executive concerning its proposals. No individual participates in any discussion regarding his or her own remuneration.

Remuneration policy

The Committee's key objective is to ensure executive remuneration is aligned with shareholders' interests, taking into account the need to:

- > attract, retain and motivate talent, but at a reasonable cost to the Group;
- > maintain an appropriate balance between fixed elements of remuneration (basic salary, benefits in kind and pension) and performance-related elements of remuneration (annual bonus and long-term incentives); and

- > place an increasing emphasis on rewarding executives by reference to the Group's long-term performance by incentivising sustainable profit growth and the creation of long-term value.

The Committee reviews the executive directors' remuneration on an annual basis. At each review, the Committee considers an individual's experience and performance in their role over the year against a number of key performance indicators relating to both individual and corporate measures of performance. The individual's experience and performance are then considered against the market positioning of pay for the role, based on an analysis of external reference points provided by the Group's independent remuneration advisers.

The Committee also takes into account pay and employment conditions across senior management within the Group when determining the executive directors' remuneration.

The executive directors' remuneration comprises:

- > a basic salary;
- > an annual bonus;
- > awards under long-term incentive plans;
- > pension-related benefits; and
- > benefits in kind.

Further information on each of the elements is set out below.

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

Basic salary

The Committee determined that, with effect from 1 July 2013, the executive directors' basic salaries would increase as follows:

	From 1 July 2013 £000	From 1 July 2012 £000	% increase
Steve Bowcott	378	343	10
Haydn Mursell	378	343	10
Paul Sheffield	481	469	2.5

The increases for Steve Bowcott and Haydn Mursell are described in further detail on page 58. Paul Sheffield's increase is within the range of increases awarded to employees across the Group.

It was also decided that the fees payable to the non-executive directors would increase with effect from 1 July 2013, as follows:

	From 1 July 2013 £000	From 1 July 2012 £000
Richard Bailey ¹	54	53
Chris Geoghegan ²	56	55
Amanda Mellor	54	44 ³
Phil White	165	162
Nick Winser	54	44 ⁴

¹ Includes an amount in respect of his position as chairman of the Risk Management and Audit Committee.

² Includes an amount in respect of his positions as senior independent non-executive director and chairman of the Remuneration Committee.

³ Increased to £52,770 upon becoming chair of the Nomination Committee with effect from 1 March 2013.

⁴ Increased to £52,770 upon becoming chairman of the SHE Committee with effect from 1 March 2013.

Annual bonus arrangements

During the year ended 30 June 2013, executive directors were eligible to receive a cash bonus of up to 100% of basic salary. Of this, a maximum of 60% was payable if the Group achieved certain profit performance targets and a maximum of 25% was payable if the Group also achieved certain cash performance targets. The remaining 15% was payable if corporate responsibility and health and safety performance targets, which are considered to be key non-financial measures for the Group, were achieved.

The Group's reported profit before exceptional items and tax for the year exceeded budget and the Group also achieved its corporate responsibility target. The Committee therefore determined that a bonus of 48.8% of basic salary would be payable to each of the executive directors during the year, with 41.3% of basic salary being payable with respect to the Group's profit performance and 7.5% relating to the corporate responsibility target. The Committee was satisfied that this bonus was commensurate with the Group's overall performance for the year. Further details of these payments are set out in the table on page 63.

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

The executive directors will continue to be entitled to receive a cash bonus of up to 100% of basic salary in respect of the financial year ending 30 June 2014, of which one-third will be satisfied in shares. The Committee determined that the following performance measures would apply to the 2014 annual bonus:

- > Profit: 55%
- > Cash: 25%
- > Kier's safety performance: 5%
- > May Gurney's safety performance: 5%
- > Individual objectives: 10%

The percentages referred to above are the maximum opportunities for each of the measures. The individual objectives will include objectives relating to the successful integration of May Gurney and the progress of the Group's organisational efficiency and cost base reduction project.

Directors' remuneration report

Continued

Long-term incentives

The Company operates a long-term incentive plan, which was approved by shareholders at the 2010 annual general meeting (the LTIP).

Contingent awards under the LTIP of 100% of salary were made to Paul Sheffield, Steve Bowcott and Ian Lawson on 14 September 2012.

An award of 200% of salary was made to Haydn Mursell on the same date.

With respect to the award to Haydn Mursell, the Committee consulted with, and took into account feedback received from, a wide range of the Group's institutional investors and shareholder representative bodies.

A range of awards were also made to the senior management team and other key employees, so as to further strengthen alignment with shareholders' interests.

For each new award cycle, the Committee sets performance targets which it considers to be stretching but achievable, using both external reference points (for example, brokers' earnings forecasts) and internal forecasts.

The awards made on 14 September 2012 are subject to the satisfaction of performance criteria which relate to the Group's earnings per share (EPS) and total shareholder return (TSR) over a three-year period ending 30 June 2015. Two-thirds of these awards relate to TSR performance; one-third relates to EPS performance. Further details are provided below.

The awards to be made during the year ending 30 June 2014 will relate to TSR performance, EPS growth and return on capital employed by May Gurney (with equal weightings for each of the three elements). A further description of these performance conditions will be included in next year's Annual Report.

EPS

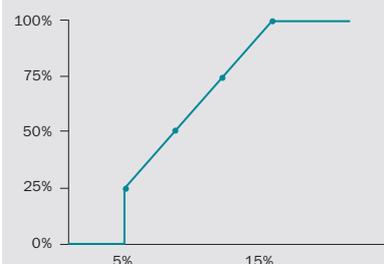
The Committee believes that EPS is a key measure of long-term performance for the Group and that measuring EPS targets on a cumulative basis provides robust performance targets. By way of illustration, compound cumulative EPS growth of 15% over a three-year performance period against a previous year EPS of 100p would be achieved if compound cumulative EPS over the performance period is at least 399p. None of the EPS element of the awards made on 14 September 2012 will vest if the Group's compound cumulative EPS growth over the performance period is less than 5% per annum, 25% of the EPS element will vest for compound cumulative EPS growth of 5% per annum and 100% will vest for compound cumulative EPS growth of 15% per annum or higher. Awards will vest on a straight-line basis for compound cumulative EPS growth between these two points.

TSR

TSR outperformance is measured on a multiplicative basis relative to a revenue weighted index based on the FTSE ASX Construction index and the FTSE ASX Support Services index. For each award cycle, the revenue weightings are fixed based on the Group's approximate prior year revenue mix. Such a weighted index is intended to provide a better reflection of the Group's overall business mix and therefore provide a more robust measure of management's contribution to long-term value creation. For the awards made on 14 September 2012, these weightings were 75% on the Construction index and 25% on the Support Services index. For example, over the three-year period, if Construction index TSR is 16% and Support Services index TSR is 12%, the Group's TSR will need to be at least 15% ((75% x 16%) + (25% x 12%)) for this element of the LTIP award to vest.

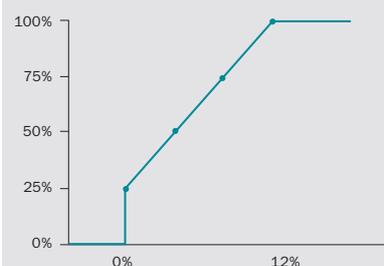
If TSR performance is in line with the weighted index, 25% of the TSR element of the awards will vest and 100% of the TSR element will vest for 12% per annum outperformance of the weighted index or higher. Awards will vest on a straight-line basis for performance between these two points. At the date of the awards, 12% per annum outperformance of the weighted index was consistent with levels of historical levels of upper quintile performance.

EPS element of the award



Cumulative EPS growth from 30 June 2012 to 30 June 2015 (equivalent to CAGR)

TSR element of the award



TSR % outperformance 2012-15 of weighted index (p.a.)

Long-term incentives

Outstanding awards made to those persons who, during the year ended 30 June 2013, served as a director of the Company under the LTIP are in the form of a deferred contingent right to acquire, at no cost to the individual, the following maximum number of ordinary shares in the Company:

	2011 award	2012 award	2013 award	Cumulative total 30 June 2013	Cumulative total 30 June 2012
Steve Bowcott	24,218	23,239	24,496	71,953	54,092
Ian Lawson ¹	29,296	27,113	28,029	84,438	82,190
Haydn Mursell	24,218	23,239	48,993	96,450	47,457
Paul Sheffield	33,593	32,394	33,490	99,477	91,768
Date of award	15 November 2010	17 November 2011	14 September 2012		
Share price at the time of award	1,271p	1,398p	1,401p		
End of performance period	30 June 2013	30 June 2014	30 June 2015		

¹ Ian Lawson retired from the Board with effect from 21 June 2013. His 2011 award remained unaffected but the maximum numbers of ordinary shares in the Company receivable under his 2012 and 2013 awards were reduced from 27,113 to 18,075 and from 28,029 to 9,343 to reflect his active service with the Group during the relevant performance periods. As at the date of this document, the cumulative total maximum number of shares receivable by Ian Lawson under LTIP awards (including the 2011 award) is 56,714.

The performance criteria relating to the awards are set out on page 60. The TSR and EPS elements of the 2011 award are weighted equally and, in the case of the 2012 and 2013 awards, are weighted two-thirds:one-third.

Compound cumulative growth in EPS over the performance period which ended on 30 June 2013 and the Group's TSR outperformance (each as described on page 60) during the six-month averaging period which ended on the same date resulted in the EPS and TSR elements of the 2011 award vesting as to 30.17% and 32.12%, respectively, or an aggregate vesting of 31.15% of the award.

On 14 November 2013 (being the vesting date for the 2011 award), those persons who served as a director during the year ended 30 June 2013 will be entitled to the following number of ordinary shares in the capital of the Company as a result of the vesting of the 2011 award (subject to deductions to satisfy income tax and national insurance contributions which will be due):

	Number of ordinary shares
Steve Bowcott	7,543
Ian Lawson	9,125
Haydn Mursell	7,543
Paul Sheffield	10,464

Richard Simkin, a former member of the Board, will be entitled to received 2,673 ordinary shares in the capital of the Company as a result of the vesting of the 2011 award (subject to deductions to satisfy income tax and national insurance contributions). As described in last year's Annual Report, his 2011 award was pro rated to a maximum of 8,583 shares to reflect the length of his active service during the performance period for the award.

Directors' remuneration report

Continued

Directors' pensions

Executive directors participate in the Kier Group Pension Scheme (the Pension Scheme) which has both a defined benefit section and a defined contribution section.

Executive directors accrue pension up to the value of the lifetime allowance. Where the value of pension benefits exceeds the lifetime allowance, future pension accrual ceases and a cash supplement is paid. Following changes to the taxation of UK pensions and, in particular, the reduction in the annual allowance, the trustees of the Pension Scheme and the Company have agreed that an executive director's annual pension provision may be replaced partly by a cash supplement.

The level of cash supplement is 20% of that salary which is no longer pensionable (or, in the case of Ian Lawson, 30%, as the cost of his current membership of the pension scheme was higher than for the other directors). The Committee has determined the level of cash supplement for each individual with a view to maintaining the Group's pension-related costs at their current level. An assessment has been carried out by the Pension Scheme's actuary of the cost to the Group of the current benefit provision and the individual supplements have been set at levels which are commensurate with the value of the pension benefit foregone. The Committee believes that the levels of supplement are in line with market practice.

Only the basic salary of directors is pensionable. Any cash supplement is excluded in determining annual bonus and long-term incentive entitlements.

Pension benefits earned by those persons who served as a director during the year ended 30 June 2013 and are members of the defined benefit section of the Pension Scheme are as follows:

	Increase in accrued pension over the year £000	Increase in accrued pension over the year ¹ £000	Transfer value of increase in accrued pension ² £000	Accumulated total accrued pension at 30 June 2013 £000	Transfer value of accrued pension at 30 June 2012 £000	Increase in transfer value £000	Transfer value of accrued pension at 30 June 2013 £000
Ian Lawson ³	3	–	–	97	1,675	89	1,764
Paul Sheffield ⁴	4	–	–	152	2,417	217	2,634

¹ The figures in this column represent the difference between the total accrued benefit at the end of the year and the equivalent amount at the beginning of the year. The figures shown have been adjusted to allow for the Retail Prices Index measure of inflation during the year.

² The figures in this column are the transfer values of the increases in the directors' benefits during the year.

³ Ian Lawson's pension accrual in the Pension Scheme was suspended on 1 September 2011. Ian Lawson subsequently opted out of the Pension Scheme with effect from 5 April 2012 and became entitled to a deferred pension with effect from that date. Ian Lawson received a cash allowance of 30% in lieu of continued pension accrual.

⁴ Paul Sheffield opted out of the Pension Scheme with effect from 30 June 2010 and became entitled to a deferred pension with effect from that date. Paul Sheffield receives a cash allowance of 20% in lieu of continued pension accrual.

The figures set out in the above table have been prepared using the Retail Prices Index as the measure of inflation. The above transfer values have been calculated on the basis of actuarial advice from the Pension Scheme's actuary in accordance with UK legislation.

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

Contributions paid to the defined contribution section of the Pension Scheme on behalf of the directors during the year ended 30 June 2013 were as follows:

	Contributions over the year £000
Steve Bowcott	50
Haydn Mursell	50

The above contributions are inclusive of contributions paid by the employer on behalf of the employee via a salary sacrifice arrangement.

All member contributions to the defined benefit section and the defined contribution section of the Pension Scheme are payable via a salary sacrifice arrangement.

Benefits in kind

Benefits in kind comprise membership of a private health insurance scheme and the provision of a company car or a car allowance.

Directors' remuneration for the year ended 30 June 2013

The value of all emoluments, and the 'total single figure' remuneration, receivable by those persons who served as a director during the year ended 30 June 2013 were as follows:

	Salary or fees £000	Taxable benefits ¹ £000	Pension supplement ² £000	Bonus ³ £000	Total emoluments £000	LTIP vesting in year ⁴ £000	Pension contribution ¹ £000	Total single figure £000
Executive directors								
Steve Bowcott	343	16	19	167	545	90	50	685
Ian Lawson	393	29	118	192	732	109	–	841
Haydn Mursell	343	13	19	167	542	90	50	682
Paul Sheffield	469	15	94	229	807	125	–	932
Non-executive directors								
Richard Bailey	53	–	–	–	53	–	–	53
Chris Geoghegan	55	–	–	–	55	–	–	55
Amanda Mellor	47	–	–	–	47	–	–	47
Phil White	162	–	–	–	162	–	–	162
Nick Winser	47	–	–	–	47	–	–	47
Former director								
Richard Simkin	–	–	–	–	–	32	–	32
Total	1,912	73	250	755	2,990	446	100	3,536

¹ Benefits comprise private health insurance and a company car or a car allowance.

² The pension supplement and contributions are explained on page 62.

³ The bonus payout is explained on page 59.

⁴ This relates to the award granted on 15 November 2010. Since the vesting date is after the date of this report, the value shown has been based on the three-month average share price for the period ended 30 June 2013, being £11.96. Further details about the vesting of the award are set out on page 61.

Directors' remuneration for the year ended 30 June 2012

	Salary or fees £000	Taxable benefits ¹ £000	Pension supplement ² £000	Bonus ³ £000	Total emoluments £000	LTIP vesting in year ⁴ £000	Pension contribution ² £000	Total single figure £000
Executive directors								
Steve Bowcott	330	15	16	248	609	93	50	752
Ian Lawson	385	27	99	289	800	361	–	1,161
Haydn Mursell ⁵	323	13	15	243	594	–	50	644
Paul Sheffield	460	15	92	345	912	361	–	1,273
Non-executive directors								
Richard Bailey	52	–	–	–	52	–	–	52
Chris Geoghegan	54	–	–	–	54	–	–	54
Amanda Mellor ⁶	25	–	–	–	25	–	–	25
Phil White	158	–	–	–	158	–	–	158
Nick Winser	43	–	–	–	43	–	–	43
Former directors								
John Dodds	–	–	–	–	–	316	–	316
Deena Mattar	–	–	–	–	–	245	–	245
Richard Simkin	–	–	–	–	–	241	–	241
Total	1,830	70	222	1,125	3,247	1,617	100	4,964

¹ Benefits comprise private health insurance and a company car or a car allowance.

² The pension supplement and contributions are explained on page 68 of last year's Annual Report.

³ The bonus is explained on page 65 of last year's Annual Report.

⁴ This relates to the award granted on 13 October 2009, 100% of which vested on 14 September 2012. The share price used for the purposes of valuing the award was £14.01, being the middle market quotation of a share on 13 September 2012. This share price was also used for the purposes of calculating the tax payable with respect to such awards. The vesting of this award is explained on page 67 of last year's Annual Report.

⁵ In addition to the above amounts, the Group paid Haydn Mursell £287,485 (gross of tax) in respect of relocation expenses. Haydn Mursell's basic salary was increased from £310,000 to £330,000 per annum with effect from 1 November 2011.

⁶ Amanda Mellor became a member of the Board with effect from 1 December 2011.

Directors' remuneration report

Continued

Retirement from the Board – principal terms

Ian Lawson retired from the Board with effect from 21 June 2013, remaining employed by the Group until 21 September 2013 to assist with the integration of May Gurney. The Committee agreed that Ian would be entitled to his salary (and cash supplement relating to his pension) for his 12-month contractual notice period, the first half of which will be paid in monthly instalments until March 2014 and, in April 2014, a lump sum will be paid with respect to the six-month period ending September 2014. The total amount payable with respect to the notice period is £510,510, although all payments during the notice period are subject to a right of clawback in favour of the Company to the extent that additional remuneration is obtained during the period. In addition, it was agreed that £8,100 would be paid by way of statutory redundancy entitlement. No other benefits will be payable during his notice period. In light of Ian's long service with the Group (in aggregate, approximately 20 years), the Committee exercised its discretion to allow his 2012 and 2013 LTIP awards to remain outstanding, subject to a reduction to reflect his active service with the Group during the relevant performance periods. Since Ian had been in active service for the whole of the performance period relating to the 2011 award, the Committee allowed his original award to remain in place, without adjustment. The Committee also agreed that, since Ian had been in active service for the year ended 30 June 2013, he would be entitled to a bonus with respect to the year, further details of which are set out on page 63.

Service contracts and letters of appointment

The effective date of the service agreement or letter of appointment of each director of the Company at 30 June 2013 and the applicable notice periods are as follows:

	Effective date	Notice period
Richard Bailey	1 October 2010	1 month
Steve Bowcott	1 July 2010	12 months
Chris Geoghegan	1 July 2007	1 month
Amanda Mellor	1 December 2011	1 month
Haydn Mursell	12 November 2010	12 months
Paul Sheffield	1 October 2005	12 months
Phil White ¹	1 July 2006	1 month
Nick Winser	1 March 2009	1 month

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

No term is included in any of the executive directors' service agreements or the non-executive directors' letters of appointment. Notice may be served by either party to the service agreement or letter of appointment. However, each director is subject to re-election, in accordance with the Articles, further details of which are set out on page 50.

The executive directors' service agreements do not contain any provisions for compensation for loss of office. These service agreements contain provisions relating to early termination and, in such cases, the Committee will consider the specific circumstances, the Company's commitments under the service agreement and any obligation to mitigate.

The Committee believes that its policy in relation to notice periods and early termination payments under the directors' contracts is fair and reasonable in the interests of the Group and the individual concerned.

As indicated above, the Company has entered into letters of appointment with each of the non-executive directors. The letters of appointment do not include any provisions for the payment of predetermined compensation in the case of wrongful termination by the Company.

Directors' interests

The directors of the Company at 30 June 2013 had the following beneficial interests (including interests of connected persons) in the ordinary shares of the Company:

	30 June 2013	1 July 2012
Richard Bailey	–	–
Steve Bowcott	12,310	4,537
Chris Geoghegan	5,000	5,000
Amanda Mellor	–	–
Haydn Mursell	10,864	7,406
Paul Sheffield	64,602	44,375
Phil White	2,540	2,540
Nick Winser	3,500	3,500

The preceding table includes, where relevant, matching shares purchased, at no cost to the individual, on their behalf under the AESOP and shares to which the executive directors are beneficially entitled as a result of receiving one-third of their 2011 and 2012 bonuses in shares. The table does not include shares to which the executive directors will become entitled upon the vesting of the awards under the LTIP granted on 15 November 2010 and/or any shares to which the executive directors may, in the future, become entitled upon the vesting of other awards granted under the LTIP.

The executive directors, as potential beneficiaries of the Kier Group 1999 Employee Benefit Trust (the Trust), are deemed along with certain other UK employees to have an interest in 485,081 ordinary shares (2012: 612,489), with an aggregate nominal value of £4,851 (2012: £6,125), held by the Trust, representing approximately 0.9% of the issued share capital of the Company as at 11 September 2013.

At 11 September 2013, the Company had been notified that the following current directors had acquired beneficial interests in further ordinary shares in the capital of the Company under the AESOP since 30 June 2013: Steve Bowcott, 26 shares; and Haydn Mursell, 25 shares. There have been no other changes in the interests of the directors (or their connected persons) in the ordinary shares in the capital of the Company since 30 June 2013.

Shareholding guidelines

The Committee encourages executive directors to build up a shareholding in the Company. With effect from 1 July 2014, the Committee has increased the recommended level of shareholding from at least one year's salary to at least two years' salary, over a period of up to five years. Executive directors are therefore encouraged to retain any shares allocated to them as part of the annual bonus arrangements and 50% of the shares allocated to them upon the vesting of LTIP awards (net of tax) until this shareholding has been reached.

The Sharesave Scheme

The Sharesave Scheme is a save as you earn option scheme, approved by HM Revenue & Customs under Schedule 3 of the Income Tax (Earnings and Pensions) Act 2003. All eligible employees and executive directors are entitled to participate in the Sharesave Scheme. Performance conditions do not apply. There has been no variation of the terms and conditions of such options.

The directors of the Company at 30 June 2013 had the following options under the Sharesave Scheme:

	Date granted	Maximum number of shares receivable at 1 July 2012 ¹	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum number of shares receivable at 30 June 2013 ¹	Exercise price	Exercise period
Steve Bowcott	17 April 2009	1,220	–	1,220	–	–	750p	1 July 2012 – 1 January 2013
	27 April 2012	857	–	–	–	857	1,050p	1 July 2015 – 1 January 2016
Total		2,077	–	1,220	–	857		
Paul Sheffield	17 April 2009	1,220	–	1,220	–	–	750p	1 July 2012 – 1 January 2013
	27 April 2012	857	–	–	–	857	1,050p	1 July 2015 – 1 January 2016
Total		2,077	–	1,220	–	857		

¹ Assumes that the individuals continue to make the maximum permitted contribution to the Sharesave Scheme until the commencement of the relevant exercise period.

Share prices

The market price of a Kier Group plc share at close of business on 28 June 2013 (being the last trading day of the 2013 financial year) was 1,145p. The highest and lowest market prices of a Kier Group plc share during the year ended 30 June 2013 (in each case, at the close of business on the relevant day) were 1,408p and 1,106p, respectively.

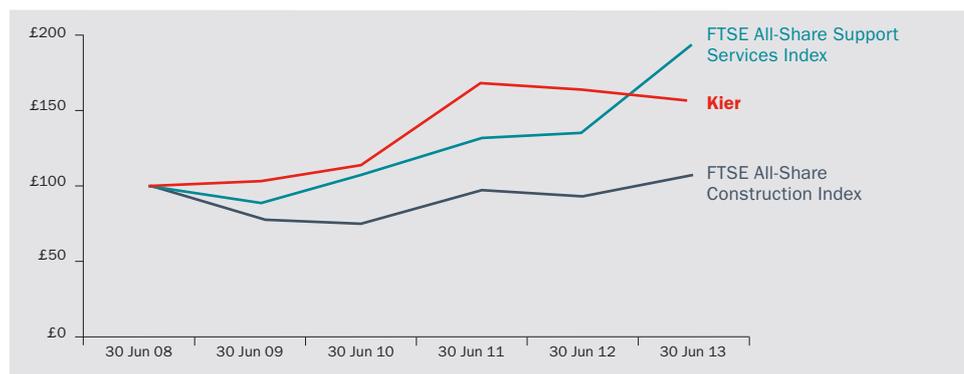
Directors' remuneration report

Continued

Total shareholder return and chief executive's remuneration

TSR

The TSR graph below shows the value, at 30 June 2013, of £100 invested in shares in the capital of the Company on 30 June 2008 compared with the value of £100 invested in the FTSE All-Share Construction Index and the FTSE All-Share Support Services Index. The other points plotted are the values at the intervening financial year ends.



Chief executive's remuneration

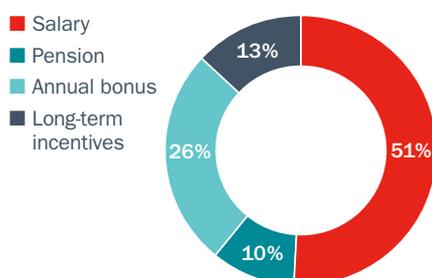
The table below shows the 'total single figure' remuneration of the chief executive for each of the last five financial years, as determined in accordance with the New Regulations, together with annual bonus payments and long-term incentive vestings as a percentage of the maximum opportunity.

	30 June 2009	30 June 2010		30 June 2011	30 June 2012	30 June 2013
Chief executive	John Dodds	John Dodds	Paul Sheffield	Paul Sheffield	Paul Sheffield	Paul Sheffield
Total single figure	£957,000	£1,427,000	£238,000 ¹	£753,000	£1,273,000	£932,000
Annual bonus (as % of maximum)	42%	51%		69%	75%	48.8%
Long-term incentive (as % of maximum)	0%	0%		0%	100%	31.15%

¹ Relates to remuneration received as chief executive during the year.

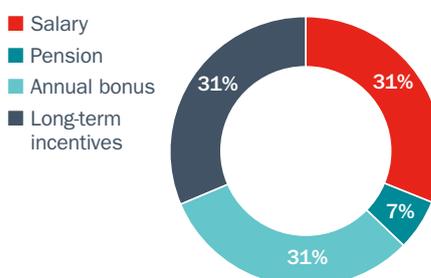
Further details of the mix of remuneration for the Group's chief executive (excluding any share price growth) for the year ended 30 June 2013 are shown in the charts below.

'On-target' performance¹



¹ Assumes, in addition to basic salary and a pension supplement of 20% of salary which is no longer pensionable, a bonus payment of 50% of basic salary and 25% vesting of an LTIP award.

'Maximum' performance²



² Assumes, in addition to basic salary and a pension supplement of 20% of salary which is no longer pensionable, a bonus payment of 100% of basic salary and 100% vesting of an LTIP award.

Distribution statement

The graph below shows the changes in dividend and employee expenditure between the years ended 30 June 2012 and 30 June 2013.

Employee expenditure £m		Dividend £m	
2013	356.4	2013	33.9 +32.4%
2012	356.4	2012	25.6

Total employee expenditure for the years ended 30 June 2012 and 2013 is explained in note 6 to the Group's financial statements for such years. The figures included above exclude related social security costs.

The interim and final dividends for the year ended 30 June 2012 were 21.5p and 44.5p per share, respectively. The interim and final (proposed) dividends for the year ended 30 June 2013 are 21.5p and 46.5p per share, respectively. The increase in dividend expenditure in the year ended 30 June 2013 arose principally because of the increase in the Company's issued share capital which resulted from the issue of 14,714,445 shares in connection with the acquisition of May Gurney.

Shareholder voting

At the 2011 and 2012 annual general meetings, the results of the votes on the directors' remuneration report were:

	2011	2012
For	18,360,630	16,460,228
Against	4,869,068	3,833,436
Withheld	92,230	840,649
% approved (excluding votes withheld)	79.0	81.1

Regulatory information

This report has been prepared in accordance with the Companies Act 2006. This report also complies with the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the Board of directors has applied the relevant provisions of the June 2010 version of The UK Corporate Governance Code to directors' remuneration.

Approval of report

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

This report was approved by the Board on 11 September 2013 and signed on its behalf by:

Chris Geoghegan

Chairman of the Remuneration Committee

Statement of directors' responsibilities

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

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

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

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

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

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

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

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

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

Signed on behalf of the Board by:

Paul Sheffield
Chief Executive

Haydn Mursell
Group Finance Director

Independent auditor's report to the members of Kier Group plc

We have audited the financial statements of Kier Group plc for the year ended 30 June 2013 set out on pages 72 to 112. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 68, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

In our opinion:

- > the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2013 and of the group's profit for the year then ended;
- > the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- > the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- > the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- > the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- > the information given in the Corporate Governance Statement set out on pages 52 to 57 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- > the directors' statement, set out on page 48, in relation to going concern;
- > the part of the Corporate Governance Statement on page 52 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- > certain elements of the report to shareholders by the Board on directors' remuneration.

Michael Froom

(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

15 Canada Square

Canary Wharf

London E14 5GL

11 September 2013

Financial statements

Financial statements

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Southend Pier Cultural Centre
Kier Construction has completed the Southend Pier Cultural Centre which is now open to the public ahead of an official opening this autumn.

Consolidated income statement

For the year ended 30 June 2013

	Notes	2013			2012		
		Before exceptional items and amortisation* £m	Exceptional items and amortisation* £m	Total £m	Before exceptional items and amortisation* £m	Exceptional items and amortisation* £m	Total £m
Revenue							
Group and share of joint ventures	2	1,982.8	-	1,982.8	2,069.2	-	2,069.2
Less share of joint ventures		(39.8)	-	(39.8)	(38.7)	-	(38.7)
Group revenue		1,943.0	-	1,943.0	2,030.5	-	2,030.5
Cost of sales		(1,739.8)	(9.4)	(1,749.2)	(1,815.1)	(3.2)	(1,818.3)
Gross profit		203.2	(9.4)	193.8	215.4	(3.2)	212.2
Administrative expenses		(144.2)	(11.0)	(155.2)	(149.0)	(3.8)	(152.8)
Share of post-tax results of joint ventures	14	0.9	-	0.9	1.3	-	1.3
Profit on disposal of joint ventures	30c	9.8	-	9.8	6.7	-	6.7
Profit from operations	2	69.7	(20.4)	49.3	74.4	(7.0)	67.4
Finance income	5	2.3	-	2.3	2.6	-	2.6
Finance cost	5	(8.6)	-	(8.6)	(7.0)	-	(7.0)
Profit before tax	2	63.4	(20.4)	43.0	70.0	(7.0)	63.0
Taxation	9a	(8.9)	4.5	(4.4)	(9.3)	1.6	(7.7)
Profit for the year		54.5	(15.9)	38.6	60.7	(5.4)	55.3
Attributable to:							
Equity holders of the parent		53.5	(15.9)	37.6	59.6	(5.4)	54.2
Minority interests	12	1.0	-	1.0	1.1	-	1.1
		54.5	(15.9)	38.6	60.7	(5.4)	55.3
Earnings per share							
	11						
- basic		136.2p	(40.4)p	95.8p	156.8p	(14.2)p	142.6p
- diluted		134.9p	(40.1)p	94.8p	154.0p	(13.9)p	140.1p

* Exceptional items include significant one-off costs related to restructuring, acquisitions and business closures. Amortisation disclosed separately relates to the amortisation of contract right costs held as intangibles on the balance sheet. The prior year comparative has been re-presented to reflect this presentation.

Consolidated statement of comprehensive income

For the year ended 30 June 2013

	Notes	2013 £m	2012 £m
Profit for the year		38.6	55.3
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements in cash flow hedging instruments		4.7	(10.7)
Tax on share of joint venture fair value movements in cash flow hedging instruments	9c	(1.7)	2.3
Total items that may be reclassified subsequently to the income statement		3.0	(8.4)
Items that will not be reclassified to the income statement			
Actuarial losses on defined benefit pension schemes		(24.2)	(49.0)
Tax on actuarial losses on defined benefit pension schemes	9c	2.9	7.5
Total items that will not be reclassified to the income statement		(21.3)	(41.5)
Other comprehensive loss for the year		(18.3)	(49.9)
Total comprehensive income for the year		20.3	5.4
Attributable to:			
Equity holders of the parent		19.3	4.3
Minority interests		1.0	1.1
		20.3	5.4

Consolidated statement of changes in equity

For the year ended 30 June 2013

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Attributable to equity holders of the parent £m	Minority interest £m	Total equity £m
At 30 June 2011	0.4	46.9	2.7	120.7	(7.6)	0.2	163.3	0.9	164.2
Profit for the year	-	-	-	54.2	-	-	54.2	1.1	55.3
Other comprehensive income for the year	-	-	-	(41.5)	(8.4)	-	(49.9)	-	(49.9)
Dividends paid	-	-	-	(24.8)	-	-	(24.8)	(0.1)	(24.9)
Issue of own shares	-	8.1	-	-	-	-	8.1	-	8.1
Purchase of own shares	-	-	-	(1.2)	-	-	(1.2)	-	(1.2)
Share-based payments	-	-	-	2.9	-	-	2.9	-	2.9
Tax on share-based payments	-	-	-	(0.3)	-	-	(0.3)	-	(0.3)
At 30 June 2012	0.4	55.0	2.7	110.0	(16.0)	0.2	152.3	1.9	154.2
Profit for the year	-	-	-	37.6	-	-	37.6	1.0	38.6
Translation differences	-	-	-	-	-	0.2	0.2	-	0.2
Other comprehensive income for the year	-	-	-	(21.3)	3.0	-	(18.3)	-	(18.3)
Dividends paid	-	-	-	(25.8)	-	-	(25.8)	(0.4)	(26.2)
Issue of own shares	-	8.3	-	-	-	-	8.3	-	8.3
Share-based payments	-	-	-	4.0	-	-	4.0	-	4.0
Tax on share-based payments	-	-	-	(0.8)	-	-	(0.8)	-	(0.8)
Purchase of own shares	-	-	-	(1.7)	-	-	(1.7)	-	(1.7)
At 30 June 2013	0.4	63.3	2.7	102.0	(13.0)	0.4	155.8	2.5	158.3

Consolidated balance sheet

At 30 June 2013

	Notes	2013 £m	2012 £m
Non-current assets			
Intangible assets	12	30.0	28.8
Property, plant and equipment	13	109.2	102.8
Investment in joint ventures	14	29.7	7.5
Retirement benefit asset	8	-	1.2
Deferred tax assets	15	23.5	28.2
Trade and other receivables	18	29.6	32.9
Non-current assets		222.0	201.4
Current assets			
Inventories	16	399.4	394.7
Trade and other receivables	18	345.6	377.5
Income tax receivable		9.3	10.7
Assets held for sale	19	4.2	13.0
Cash and cash equivalents	20	152.3	159.1
Current assets		910.8	955.0
Total assets		1,132.8	1,156.4
Current liabilities			
Borrowings	20	-	(30.3)
Finance lease obligations	21	(2.7)	(1.3)
Other financial liabilities	27	(0.1)	(0.3)
Trade and other payables	22	(754.5)	(816.6)
Provisions	23	(17.6)	(1.8)
Current liabilities		(774.9)	(850.3)
Non-current liabilities			
Borrowings	20	(92.5)	-
Finance lease obligations	21	(11.0)	(7.3)
Other financial liabilities	27	(0.5)	(0.3)
Trade and other payables	22	(6.1)	(37.2)
Retirement benefit obligations	8	(49.7)	(59.0)
Provisions	23	(39.8)	(47.8)
Deferred tax liabilities	15	-	(0.3)
Non-current liabilities		(199.6)	(151.9)
Total liabilities		(974.5)	(1,002.2)
Net assets	2	158.3	154.2
Equity			
Share capital	24	0.4	0.4
Share premium		63.3	55.0
Capital redemption reserve		2.7	2.7
Retained earnings		102.0	110.0
Cash flow hedge reserve	24	(13.0)	(16.0)
Translation reserve	24	0.4	0.2
Equity attributable to equity holders of the parent		155.8	152.3
Minority interests		2.5	1.9
Total equity		158.3	154.2

The financial statements were approved by the Board of directors on 11 September 2013 and were signed on its behalf by:

Paul Sheffield
Haydn Mursell
Directors

Consolidated cash flow statement

For the year ended 30 June 2013

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Profit before tax		43.0	63.0
Exceptional items	4	17.0	3.6
Net finance cost	5	6.3	4.4
Share of post-tax trading results of joint ventures	14	(0.9)	(1.3)
Normal cash contributions to pension fund in excess of pension credit/charge		(12.2)	(9.7)
Equity settled share-based payments charge	25	4.0	2.9
Amortisation and impairment of intangible assets	12	4.3	3.7
Depreciation charges	13	12.7	13.9
Profit on disposal of joint ventures		(9.8)	(6.7)
Profit on disposal of property, plant and equipment		(1.7)	(1.4)
Operating cash flows before movements in working capital		62.7	72.4
Special contributions to pension fund		(20.1)	(11.1)
(Increase)/decrease in inventories		(4.7)	36.0
Decrease/(increase) in receivables		35.2	(63.4)
Decrease in payables		(69.0)	(15.4)
Increase/(decrease) in provisions		1.6	(2.6)
Cash inflow from operating activities before exceptional items		5.7	15.9
Cash flow from exceptional items		(11.0)	-
Cash flows from operating activities		(5.3)	15.9
Dividends received from joint ventures	14	0.2	0.3
Interest received		2.3	3.2
Income taxes received/(paid)		3.5	(2.1)
Net cash generated from operating activities		0.7	17.3
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		2.9	6.3
Proceeds from sale of joint ventures	30c	13.0	8.1
Purchases of property, plant and equipment		(22.1)	(41.2)
Purchase of intangible assets		(5.5)	(1.8)
Acquisition of subsidiaries	30a	(31.5)	(4.5)
Net investment in joint ventures	14	(19.2)	(6.9)
Net cash used in investing activities before exceptional disposal proceeds		(62.4)	(40.0)
Exceptional proceeds on disposal of plant business net of disposal costs		13.0	-
Net cash used in investing activities		(49.4)	(40.0)
Cash flows from financing activities			
Issue of shares		7.0	0.3
Purchase of own shares		(1.7)	(1.2)
Interest paid		(5.8)	(3.9)
Inflow from finance leases on property, plant and equipment		6.6	9.1
Inflow from new borrowings		92.5	-
Finance lease repayments		(1.5)	(0.5)
Repayment of borrowings		(30.3)	-
Dividends paid to equity holders of the parent		(24.5)	(17.0)
Dividends paid to minority interests		(0.4)	(0.1)
Net cash used in financing activities		41.9	(13.3)
Decrease in cash and cash equivalents		(6.8)	(36.0)
Opening cash and cash equivalents		159.1	195.1
Closing cash and cash equivalents	20	152.3	159.1

Notes to the consolidated financial statements

For the year ended 30 June 2013

1 Significant accounting policies

Kier Group plc (the Company) is a company domiciled in the United Kingdom (UK). The consolidated financial statements of the Company for the year ended 30 June 2013 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

The consolidated financial statements were approved by the directors on 11 September 2013.

Statement of compliance

The Group's consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (GAAP). These are presented on pages 107 to 110.

Basis of preparation

The Group has considerable financial resources, long-term contracts and a diverse range of customers and suppliers across its business activities.

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

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

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

The following amendments to standards or interpretations are effective for the first time for the financial year ended 30 June 2013:

Amendments to IAS 1 Presentation of Financial Statements

The adoption of this amendment has not resulted in changes to the Group's accounting policies and has not had a material impact on amounts reported for the current or prior years.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year ended 30 June 2013:

Effective for periods for Kier Group plc for financial years beginning on or after 1 July 2013

IFRS 13 Fair Value Measurement

IFRIC 20 Stripping costs in the production phase in a surface mine

IAS 19R Employee Benefits

Amendments to IFRS 7 Financial Instruments: Disclosures (Offsetting financial assets and financial liabilities)

IAS 32 Financial Instruments: Presentation (Offsetting financial assets and financial liabilities)

Effective for periods for Kier Group plc for financial years beginning on or after 1 July 2014

IFRS 10 Consolidated Financial statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

IAS 27 Consolidated and Separate Financial Statements

IAS 28 Investments in Associates and Joint Ventures

IAS 36 Impairment of Assets (recoverable amount disclosures for non-financial assets)

Effective date currently un-determined as not endorsed yet by the EU.

IFRS 9 Financial Instruments

The directors have considered the impact of these new standards and interpretations in future periods. The impact of the adoption of IAS 19R which is effective for the year ending 30 June 2014 is to replace the credit for the expected return on scheme assets and the charge for the interest cost on scheme liabilities in the income statement with an interest charge on the net pension deficit. If this new standard had been implemented for the year ended 30 June 2013 the pension charge in the income statement would have increased by £16.7m with a matching credit direct to reserves. This change has no impact on the pension deficit or cash.

Other than the impact of IAS 19R as noted above, no significant net impact from the adoption of these new standards is expected. The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

Basis of consolidation

(a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 30 June 2013. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the result is negative, a 'bargain purchase' gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement unless the contingent consideration is classified as equity, in which case settlement is accounted for within reserves.

(b) Joint ventures

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

The Group's interests in jointly controlled entities are accounted for using the equity method. Under this method the Group's share of the profits less losses of jointly controlled entities is included in the consolidated income statement and its interest in their net assets is included in investments in the consolidated balance sheet. Where the share of losses exceeds the Group's interest in the entity and there is no obligation to fund these losses the carrying amount is reduced to nil following which no further losses are recognised. Interest in the entity is the carrying amount of the investment together with any long-term interests that, in substance, form part of the net investment in the entity.

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

Goodwill and other intangible assets

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

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

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

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

Exceptional items

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

Revenue and profit recognition

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

Revenue and profit are recognised as follows:

(a) Construction contracts

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

Profit on contracts is calculated in accordance with accounting standards and industry practice. Industry practice is to assess the estimated final outcome of each contract and recognise the profit based upon the percentage of completion of the contract at the relevant date. The assessment of the final outcome of each contract is determined by regular review of the revenues and costs to complete that contract. Consistent contract review procedures are in place in respect of contract forecasting.

The general principles for profit recognition are as follows:

- profits on short duration contracts (generally less than 12 months) are taken when the contract is complete;
- profits on other contracts are recognised on a percentage of completion basis when the contract's outcome can be estimated reliably;
- provision is made for losses incurred or foreseen in bringing the contract to completion as soon as they become apparent;
- claims receivable are recognised as income when received or certified for payment, except that in preparing contract forecasts to completion, a prudent and reasonable evaluation of claims receivable may be included to mitigate foreseeable losses and only to the extent that there is reasonable certainty of recovery; and
- variations and compensation events are included in forecasts to completion when it is considered highly probable that they will be recovered.

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

(b) Services

Revenue and profit from services rendered, which include facilities management, maintenance, street cleaning and recycling, is recognised as and when the service is provided.

(c) Private housing and land sales

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

(d) Property development

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

Where developments are sold in advance of construction being completed, revenue and profit are recognised from the point of sale and as the significant outstanding acts of construction and development are completed. If a development is sold in advance of the commencement of construction, no revenue or profit is recognised at the point of sale. Revenue and profit are recognised in line with the

Notes to the consolidated financial statements

For the year ended 30 June 2013

1 Significant accounting policies continued

progress on construction, based on the percentage completion of the construction and development work. If a development is sold during construction but prior to completion, revenue and profit are recognised at the time of sale in line with the percentage completion of the construction and development works at the time of sale and thereafter in line with the percentage of completion of the construction and development works.

If a development is sold after construction and development works are completed revenue and profit are recognised in full at the point of sale.

(e) PFI service concession agreements

Revenue relating to construction or upgrade services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts (see previous page). Operation or service revenue is recognised in the period in which the services were provided by the Group. When the Group provides more than one service in a service concession agreement, the consideration received is allocated by reference to the relative fair values of the services delivered.

Pre-contract costs

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

When financial close is achieved on Private Finance Initiative (PFI) or Public Private Partnership (PPP) contracts, costs are recovered from the special purpose vehicle and pre-contract costs within this recovery that were not previously capitalised are credited to the income statement, except to the extent that the Group retains a share in the special purpose vehicle. The amount not credited is deferred and recognised over the life of the construction contract to which the costs relate.

Property, plant and equipment and depreciation

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

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

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

Leases

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the rental charges are charged to the income statement on a straight-line basis over the life of each lease.

Employee benefits

(a) Retirement benefit obligations

For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due.

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

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

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

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

(b) Share-based payments

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

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

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

Finance income and costs

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

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

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

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

Taxation

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

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

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

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

Foreign currencies

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

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

Mining assets

Opencast expenditure incurred prior to the commencement of operating an opencast site is capitalised and the cost less the residual value is depreciated over the 'coaling life' of the site on a coal extraction basis.

The cost of restoration is recognised as a provision as soon as the restoration liability arises. The amount provided represents the present value of the anticipated costs. Costs are charged against the provision as incurred and the unwinding of the discount is included within finance costs. A tangible asset is created for an amount equivalent to the initial provision and depreciated on a coal extraction basis over the life of the asset. Where there is a subsequent change to the estimated restoration costs or discount rate, the present value of the change is recognised as a change in the restoration provision with a corresponding change in the cost of the tangible asset until the asset is fully depreciated when the remaining adjustment is taken to the income statement.

Inventories

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

estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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

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

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

Assets held for sale

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets are available for sale in their present condition.

Share capital

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

Provisions

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

Financial instruments

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

(a) Trade receivables and trade payables

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

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

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

(b) Cash and cash equivalents

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

Notes to the consolidated financial statements

For the year ended 30 June 2013

1 Significant accounting policies continued

(c) Bank and other borrowings

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

(d) PFI assets

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

(e) Derivative financial instruments

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently re-measured in future periods at their fair value. The method of recognising the resulting change in fair value depends on whether the derivative is designated as a hedging instrument and whether the hedging relationship is effective.

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

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

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

Accounting estimates and judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(a) Revenue and profit recognition

The estimation techniques used for revenue and profit recognition in respect of private housing and land sales, property development and construction contracts.

(b) Valuation of land and work in progress

The key judgements and estimates in determining the net realisable value of land and work in progress were:

- an estimation of costs to complete;
- an estimation of the remaining revenues; and
- an estimation of selling costs.

These assessments include a degree of uncertainty and therefore if the key judgements and estimates change, further impairments of land and work in progress may be necessary.

(c) Determination of fair values of identifiable net assets on acquisitions

The accounting for the Kier Developments Limited acquisition involved identifying and determining the fair values to be assigned to the existing 50% interest in the joint venture, as well as the identifiable assets, liabilities and contingent liabilities acquired and the cost of acquisition. The determination of fair values involved some key judgements and estimates, particularly in relation to the fair value of the property portfolio. The key judgements and estimates made in determining the fair value of the property portfolio were:

- the appropriate yields;
- an estimation of costs to complete;
- assumptions around planning permissions; and
- an estimation of likely rentals, or forecast sales prices.

(d) Defined benefit pension scheme valuations

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

- expected return on plan assets;
- inflation rate;
- mortality;
- discount rate; and
- salary and pension increases.

Details of the assumptions used are included in note 8.

2 Segmental reporting

The Group operates three divisions; Construction, Services and Property, and this is the basis on which the Group manages and reports its primary segmental information. Corporate includes unrecovered overheads and the charge for defined benefit pension schemes.

Segment information is based on the information provided to the chief executive who is the chief operating decision maker. The segments are strategic business units with separate management and have different core customers and offer different services. The segments are discussed in the chief executive's review on pages 08 to 11.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies on pages 76 to 80. The Group evaluates segment information on the basis of profit or loss from operations before exceptional items, interest and income tax expense. The segment results that are reported to the chief executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Year to 30 June 2013	Construction £m	Services £m	Property £m	Corporate £m	Group £m
Revenue¹					
Group and share of joint ventures	1,307.4	437.4	238.0	-	1,982.8
Less share of joint ventures	(6.2)	-	(33.6)	-	(39.8)
Group revenue	1,301.2	437.4	204.4	-	1,943.0
Profit					
Group operating profit	30.0	19.3	10.2	(0.5)	59.0
Share of post-tax results of joint ventures	0.4	-	0.5	-	0.9
Profit on disposal of joint ventures	-	-	9.8	-	9.8
Profit from operations before exceptional items and amortisation³	30.4	19.3	20.5	(0.5)	69.7
Exceptional items	(8.9)	(6.7)	-	(1.4)	(17.0)
Amortisation of intangible assets relating to contract rights	(0.1)	(3.3)	-	-	(3.4)
Profit from operations	21.4	9.3	20.5	(1.9)	49.3
Finance income/(cost) ²	7.6	(0.8)	(14.2)	1.1	(6.3)
Profit before tax	29.0	8.5	6.3	(0.8)	43.0
Balance sheet					
Total assets excluding cash	370.2	131.4	425.5	53.4	980.5
Liabilities excluding borrowings	(568.4)	(129.1)	(81.0)	(103.5)	(882.0)
Net operating (liabilities)/assets	(198.2)	2.3	344.5	(50.1)	98.5
Cash, net of borrowings	319.3	30.0	(266.9)	(22.6)	59.8
Net assets	121.1	32.3	77.6	(72.7)	158.3
Other information					
Inter-segmental revenue	10.2	35.5	0.3	-	46.0
Capital expenditure	6.7	8.1	1.6	10.6	27.0
Depreciation of property, plant and equipment	5.4	4.1	0.2	3.0	12.7

¹ Revenue is stated after the exclusion of inter-segmental revenue.

² Interest was (charged)/credited to the divisions at a notional rate of 4.5% and 4.0% respectively.

³ Amortisation relating to intangible contract rights.

Notes to the consolidated financial statements

For the year ended 30 June 2013

2 Segmental reporting continued

Year to 30 June 2012	Construction £m	Services £m	Property £m	Corporate £m	Group £m
Revenue¹					
Group and share of joint ventures	1,383.5	444.9	240.8	-	2,069.2
Less share of joint ventures	(2.7)	-	(36.0)	-	(38.7)
Group revenue	1,380.8	444.9	204.8	-	2,030.5
Profit³					
Group operating profit	35.1	20.1	14.1	(2.9)	66.4
Share of post-tax results of joint ventures	0.1	-	1.2	-	1.3
Profit on disposal of joint ventures	-	-	6.7	-	6.7
Profit from operations before exceptional items and amortisation relating to intangible contract rights	35.2	20.1	22.0	(2.9)	74.4
Exceptional items	-	(3.2)	(0.4)	-	(3.6)
Amortisation of intangible assets relating to contract rights	-	(3.4)	-	-	(3.4)
Profit from operations	35.2	13.5	21.6	(2.9)	67.4
Finance income/(cost) ²	12.5	(1.4)	(13.7)	(1.8)	(4.4)
Profit before tax	47.7	12.1	7.9	(4.7)	63.0
Balance sheet					
Total assets excluding cash	376.1	132.9	439.1	49.2	997.3
Liabilities excluding borrowings	(588.3)	(118.1)	(109.5)	(156.0)	(971.9)
Net operating (liabilities)/assets	(212.2)	14.8	329.6	(106.8)	25.4
Cash, net of borrowings	360.6	19.3	(263.4)	12.3	128.8
Net assets	148.4	34.1	66.2	(94.5)	154.2
Other information					
Inter-segmental revenue	23.3	29.8	0.5	-	53.6
Capital expenditure	14.5	16.3	1.4	8.9	41.1
Depreciation of property, plant and equipment	3.3	8.0	0.1	2.5	13.9

¹ Revenue is stated after the exclusion of inter-segmental revenue.

² Interest was (charged)/credited to the divisions at a notional rate of 4.5% and 4.0% respectively.

³ The prior year comparative has been re-presented to separately disclose amortisation of intangible assets relating to contract rights, consistent with the current year presentation.

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

Net operating (liabilities)/assets represent assets excluding cash, bank overdrafts, borrowings and interest-bearing inter-company loans.

3 Profit for the year

Profit before taxation is stated after charging:

	2013 £m	2012 £m
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the annual accounts	0.1	0.1
Fees payable to the Company's auditor for other services:		
Audit of the Company's subsidiaries, pursuant to legislation	0.6	0.7
Other services	1.2	0.1
Hire of plant and machinery	23.7	22.4
Operating lease rentals:		
Land and buildings	5.0	5.2
Plant and machinery	20.0	14.8

The 2013 auditor's remuneration for statutory audit services and non-audit services relate to amounts paid to KPMG Audit Plc. The 2014 amounts will solely relate to amounts paid to KPMG LLP.

Other services mainly comprise £0.9m relating to due diligence in connection with the acquisition of May Gurney and £0.2m for advice in connection with the Group's organisational efficiency and cost base reduction project.

4 Exceptional items and amortisation of intangible contract rights

	2013 £m	2012 £m
Loss on disposal of the tower crane and other discontinued businesses	(3.2)	(3.2)
Acquisition costs	(1.8)	(0.4)
Business restructuring	(10.1)	-
Closure and discontinuation of scaffolding and related businesses	(1.9)	-
Exceptional items before tax	(17.0)	(3.6)
Taxation on exceptional items	3.7	0.8
Exceptional items after tax	(13.3)	(2.8)
Amortisation of intangible contract rights	(3.4)	(3.4)
Taxation on amortisation of intangible contract rights	0.8	0.8
Exceptional items and amortisation of intangible contract rights after tax	(15.9)	(5.4)

On 5 August 2013 the Group sold the final portfolio of assets in its plant business, tower cranes. The loss on disposal along with other discontinued businesses was £3.2m (2012: £3.2m).

During the year a cost of £1.8m has been incurred on the acquisition of May Gurney Integrated Services plc (2012: Biogen (UK) Limited £0.4m). Further details of this acquisition are provided in note 31.

Business restructuring costs of £10.1m have been incurred during the year, in the ongoing strategic review of the Construction and Services divisions. These costs primarily relate to reduction in staff numbers and rationalisation of office locations.

Notes to the consolidated financial statements

For the year ended 30 June 2013

5 Finance income and cost

	2013 £m	2012 £m
Finance income		
Interest receivable on bank deposits	1.0	1.1
Interest receivable on loans to joint ventures	1.3	1.5
	2.3	2.6
Finance cost		
Interest payable and fees on bank overdrafts and loans	(2.4)	(1.6)
Interest payable on borrowings	(3.0)	(2.0)
Interest payable on finance lease obligations	(0.4)	(0.1)
Unwinding of discount on long-term liabilities	(2.8)	(3.3)
	(8.6)	(7.0)

6 Information relating to employees

	Note	2013 No.	2012 No.
Average number of persons employed during the year including executive directors was:			
United Kingdom		9,763	10,246
Rest of world		692	531
		10,455	10,777
		£m	£m
Group staff costs are as follows:			
United Kingdom		369.4	372.8
Rest of world		18.4	11.8
		387.8	384.6
Comprising:			
Wages and salaries		339.8	334.2
Social security costs		31.4	28.2
Defined benefit pension scheme (credit)/costs		(1.1)	2.3
Contributions to defined contribution pension schemes		13.7	16.8
Share-based payment plans	25	4.0	3.1
		387.8	384.6

7 Information relating to directors

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 58 to 67.

8 Retirement benefit obligations

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

Kier Group Pension Scheme

This is the principal scheme and includes a defined benefit section and a defined contribution section. The assets of the Scheme are held in trust separate from the assets of the Group. The trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers.

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

An actuarial valuation of the Scheme was undertaken by the trustees' independent actuaries as at 1 April 2010 using the projected unit method. The market value of the Scheme's assets at that date was £622.0m which represented approximately 88% of the benefits that had accrued to members at that date, after allowing for future increases in salaries. The contributions paid during the year were £29.4m (2012: £20.9m) which included special contributions of £20.1m (2012: £11.1m) to fund the past service deficit.

Going forward, contributions will include an allowance for funding the past service deficit identified at the 2010 valuation date. The Group expects to make contributions for future service of £9.4m, being 20.5% of pensionable pay until 1 April 2014 and 21.8% of pensionable pay thereafter, plus £10.8m for funding the past service deficit in the year to June 2014.

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

Following closure of the defined benefit section of the Scheme to new entrants most new employees are offered membership of the defined contribution section of the Kier Group Pension Scheme. The Group is required to pay contributions in respect of those employees in accordance with the rates specified in their contracts of employment. The contributions paid during the year, and the pension charge, amounted to £13.7m (2012: £12.7m).

An actuarial valuation of the Kier Group Pension Scheme is currently being carried out as at 1 April 2013.

Kier Sheffield LLP

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

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

Kier Sheffield LLP's pension costs in respect of the defined benefit scheme are assessed on the advice of an independent qualified actuary using the projected unit method. The contributions paid during the year were £1.8m (2012: £2.2m). Going forward Kier Sheffield LLP expects to pay contributions for future service at the rate of 10.5% of pensionable pay.

An actuarial valuation of the South Yorkshire Pension Fund is currently being carried out as at 1 April 2013.

Other schemes

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

In response to the Government's recent legislation on automatic enrolment of employees into workplace pensions, the Group selected the People's Pension (which is run by B&CE) as a workplace pension arrangement and expects to pay in the future contributions of up to £1.5m p.a. in relation to this arrangement.

IAS 19 'Employee Benefits' disclosures

Kier recognises any actuarial gains or losses through the statement of comprehensive income as permitted under IAS 19.

Notes to the consolidated financial statements

For the year ended 30 June 2013

8 Retirement benefit obligations continued

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

Kier Group Pension Scheme

	2013 %	2012 %	2011 %
Rate of general increases in pensionable salaries	3.3	2.8	3.4
Rate of increase to pensions in payment liable for Limited Price Indexation	3.2	2.8	3.4
Discount rate	4.7	4.7	5.5
Inflation rate (RPI)	3.5	3.0	3.6
Inflation rate (CPI)	2.5	2.0	2.7

The mortality assumptions are that life expectancy from age 60 is 29.1 years and 29.7 years for men and women respectively, for future pensioners who retire in 2033.

	2013 £m	2012 £m	Value 2011 £m
Land	12.9	13.8	13.8
Equities, property and other return-seeking assets	608.1	513.2	527.6
PFI assets	7.1	7.6	4.5
Government bonds, cash, swaps and collateral	155.6	187.3	134.3
Total market value of assets	783.7	721.9	680.2
Present value of liabilities	(832.4)	(780.9)	(711.3)
Deficit	(48.7)	(59.0)	(31.1)
Related deferred tax asset	11.2	14.2	8.1
Net pension liability	(37.5)	(44.8)	(23.0)

Kier Sheffield LLP

	2013 %	2012 %	2011 %
Rate of general increases in pensionable salaries	4.5	4.0	4.6
Discount rate	4.7	4.7	5.5
Inflation rate (RPI)	3.5	3.0	3.6
Inflation rate (CPI)	2.5	2.0	2.7

The mortality assumptions are that life expectancy from age 60 is 27.7 years and 30.7 years for men and women respectively, for future pensioners who retire in 2033.

	2013 £m	2012 £m	Value 2011 £m
Equities and property	128.4	120.7	120.9
Corporate bonds	12.1	13.0	11.2
Government bonds	42.4	27.5	27.4
Total market value of assets	182.9	161.2	159.5
Present value of liabilities	(183.9)	(160.0)	(158.0)
(Deficit)/surplus	(1.0)	1.2	1.5
Related deferred tax asset/(liability)	0.2	(0.3)	(0.4)
Net pension (liability)/asset	(0.8)	0.9	1.1

Pension sensitivity

The assumption considered to be the most significant is the discount rate adopted. If the discount rate were to increase by 0.1% the Kier Group Pension Scheme deficit would decrease by £14.6m, and the Kier Sheffield LLP liability would decrease by £3.6m resulting in a surplus of £2.6m.

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

	2013			2012		
	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Total £m	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Total £m
(Charged)/credited to operating profit in the income statement						
Current service cost	(9.8)	(2.8)	(12.6)	(9.5)	(3.2)	(12.7)
Expected return on scheme assets	46.9	10.6	57.5	46.7	11.0	57.7
Interest cost on scheme liabilities	(36.2)	(7.5)	(43.7)	(38.6)	(8.7)	(47.3)
Past service cost	-	(0.1)	(0.1)	-	-	-
	0.9	0.2	1.1	(1.4)	(0.9)	(2.3)
Amount recognised in statement of comprehensive income						
Actual return less expected return on scheme assets	17.2	11.2	28.4	2.1	(8.2)	(6.1)
Experience (losses)/gains on scheme liabilities	(37.2)	(15.4)	(52.6)	(49.5)	6.6	(42.9)
	(20.0)	(4.2)	(24.2)	(47.4)	(1.6)	(49.0)
Changes in the fair value of scheme assets						
Fair value at 1 July	721.9	161.2	883.1	680.2	159.5	839.7
Expected return on scheme assets	46.9	10.6	57.5	46.7	11.0	57.7
Actual return less expected return on scheme assets	17.2	11.2	28.4	2.1	(8.2)	(6.1)
Contributions by the employer	29.4	1.8	31.2	20.9	2.2	23.1
Contributions by scheme participants	0.1	1.1	1.2	1.1	1.1	2.2
Net benefits paid out	(31.8)	(3.0)	(34.8)	(29.1)	(4.4)	(33.5)
Fair value at 30 June	783.7	182.9	966.6	721.9	161.2	883.1
Changes in the present value of the defined benefit obligation						
Fair value at 1 July	(780.9)	(160.0)	(940.9)	(711.3)	(158.0)	(869.3)
Current service cost	(9.8)	(2.8)	(12.6)	(9.5)	(3.2)	(12.7)
Interest cost on scheme liabilities	(36.2)	(7.5)	(43.7)	(38.6)	(8.7)	(47.3)
Past service cost	-	(0.1)	(0.1)	-	-	-
Experience (losses)/gains on scheme liabilities	(37.2)	(15.4)	(52.6)	(49.5)	6.6	(42.9)
Contributions by scheme participants	(0.1)	(1.1)	(1.2)	(1.1)	(1.1)	(2.2)
Net benefits paid out	31.8	3.0	34.8	29.1	4.4	33.5
Fair value at 30 June	(832.4)	(183.9)	(1,016.3)	(780.9)	(160.0)	(940.9)
Amounts included in the balance sheet						
Fair value of scheme assets	783.7	182.9	966.6	721.9	161.2	883.1
Net present value of the defined benefit obligation	(832.4)	(183.9)	(1,016.3)	(780.9)	(160.0)	(940.9)
Net (deficit)/surplus	(48.7)	(1.0)	(49.7)	(59.0)	1.2	(57.8)
Related deferred tax asset/(liability)	11.2	0.2	11.4	14.2	(0.3)	13.9
Net pension (liability)/asset	(37.5)	(0.8)	(38.3)	(44.8)	0.9	(43.9)

Notes to the consolidated financial statements

For the year ended 30 June 2013

8 Retirement benefit obligations continued

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

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of scheme assets	966.6	883.1	839.7	746.3	614.5
Net present value of the defined benefit obligation	(1,016.3)	(940.9)	(869.3)	(833.5)	(729.2)
Net deficit	(49.7)	(57.8)	(29.6)	(87.2)	(114.7)
Related deferred tax asset	11.4	13.9	7.7	24.4	32.1
Net pension liability	(38.3)	(43.9)	(21.9)	(62.8)	(82.6)
Difference between expected and actual return on scheme assets	28.4	(6.1)	47.0	82.8	(103.3)
Experience gains and losses on scheme liabilities	(52.6)	(42.9)	(34.4)	(93.0)	0.1

The Group has made the following special contributions to the Kier Group Pension Scheme:

- in December 2011 £3.1m which was settled through the transfer of the Group's 50% interest in Hinchingsbrooke Hospital PFI project (Prospect Healthcare Hinchingsbrooke) Holdings Limited;
- in July 2012 £5.0m which was settled in cash; and
- In June 2013, £7.1m which was settled through the transfer of the Group's interest in the Sydenham development site into Kier Sydenham LP, an equal partnership between the Group and the Scheme.

These amounts have been included as contributions received by the Scheme.

9 Taxation

(a) Recognised in the income statement

	2013			2012		
	Before exceptional items and amortisation* £m	Exceptional items and amortisation* £m	Total £m	Before exceptional items and amortisation* £m	Exceptional items and amortisation* £m	Total £m
Current tax expense						
UK corporation tax	3.5	(3.5)	-	2.1	(0.8)	1.3
Adjustments for prior years	(2.1)	-	(2.1)	(6.9)	-	(6.9)
Total current tax	1.4	(3.5)	(2.1)	(4.8)	(0.8)	(5.6)
Deferred tax expense						
Origination and reversal of temporary differences	9.3	(1.0)	8.3	15.1	(0.8)	14.3
Rate change effect on deferred tax	(1.4)	-	(1.4)	(1.8)	-	(1.8)
Adjustments in respect of prior years	(0.4)	-	(0.4)	0.8	-	0.8
Total deferred tax	7.5	(1.0)	6.5	14.1	(0.8)	13.3
Total tax charge/(credit) in the income statement	8.9	(4.5)	4.4	9.3	(1.6)	7.7
Reconciliation of effective tax rate						
Profit before tax	63.4	(20.4)	43.0	70.0	(7.0)	63.0
Adjust: tax on joint ventures included above	(0.2)	-	(0.2)	0.2	-	0.2
Adjusted profit before tax	63.2	(20.4)	42.8	70.2	(7.0)	63.2
Income tax at UK corporation tax rate of 23.75% (2012: 25.5%)	15.0	(4.8)	10.2	17.9	(1.8)	16.1
Non-deductible expenses	0.1	0.3	0.4	0.6	0.2	0.8
Effect of change in UK corporation tax rate	(1.4)	-	(1.4)	(1.8)	-	(1.8)
Capital gains not taxed	(1.2)	-	(1.2)	(1.1)	-	(1.1)
Tax relief on expenses not recognised in the income statement	(0.7)	-	(0.7)	-	-	-
Effect of tax rates in foreign jurisdictions	(0.2)	-	(0.2)	-	-	-
Deferred tax asset on tax losses in joint ventures	(0.4)	-	(0.4)	-	-	-
Adjustments in respect of prior years	(2.5)	-	(2.5)	(6.1)	-	(6.1)
Total tax (including joint ventures)	8.7	(4.5)	4.2	9.5	(1.6)	7.9
Tax on joint ventures	0.2	-	0.2	(0.2)	-	(0.2)
Group tax charge/(credit)	8.9	(4.5)	4.4	9.3	(1.6)	7.7

* Exceptional items include significant one-off costs related to restructuring, acquisitions and business closures. Amortisation disclosed separately relates to the amortisation of contract right costs held as intangibles on the balance sheet. The prior year comparative has been re-presented to reflect this presentation.

Kier Group and its subsidiaries are based predominantly in the UK and are subject to UK corporation tax. Where Kier operates overseas this will generally be either through UK resident companies or branches of UK companies, and therefore these companies will pay UK corporation tax subject to the offset of local overseas tax. The Group does not have an aggressive tax policy and has not entered into any tax avoidance schemes which were, or should have been, notified to HMRC under the Disclosure of Tax Avoidance Scheme (DOTAS) rules during the year or previous year. The tax charge before exceptional items and amortisation of contract rights of £8.9m (2012: £9.3m) shown in the table above equates to an effective tax rate of 14% (2012: 13%) on adjusted profit before tax of £63.2m (2012: £70.2m). This effective rate is lower than the standard rate of corporation tax of 23.75% (2012: 25.5%) due to a number of items shown in the table above.

The effect of the change in the UK corporation tax rate arises principally as a result of the impact of the rate change on the deferred tax asset related to the retirement benefit obligations. In accordance with accounting standards the effect of the change in the tax rate on the deferred tax balance is recognised in the same primary statement that the original deferred tax balance was recognised in. The original deferred tax balance relating to the retirement benefit obligation is made up of two larger amounts that were previously recognised in part through the income statement and in part through the statement of comprehensive income. This has resulted in a credit in the income statement and a charge in the statement of comprehensive income for the years ended 30 June 2012 and 30 June 2013.

Notes to the consolidated financial statements

For the year ended 30 June 2013

9 Taxation continued

In accordance with UK tax legislation, capital gains arising on disposal of certain investments, including some of the joint ventures disposed of during the year, are not subject to tax.

Tax relief on expenses not recognised in the income statement includes the impact of the tax deduction received in respect of the cost of shares exercised under the Group's employee Save As You Earn Scheme.

As a result of additional investment made in joint ventures, there is more certainty that existing tax losses will be utilised against trading profits in the short term, and in accordance with accounting standards a deferred tax asset has been recognised.

The adjustment in respect of prior years' results from differences between the estimates of taxation included in the previous year's financial statements and the actual tax liabilities calculated in the tax returns submitted to and agreed by HMRC.

(b) Recognised in the cash flow statement

The cash flow statement shows a repayment of £3.5m during the year. Tax payments are generally lower than the tax charge in the income statement because tax deductions are claimed for pension contributions based on the level of contributions actually paid, and pension payments in the year exceed the amount included in the income statement.

During the year Kier received a corporate tax repayment from HMRC which related to earlier periods.

(c) Recognised in the statement of comprehensive income

	2013 £m	2012 £m
Deferred tax expense (including effect of change in tax rate)		
Fair value movements on joint venture cash flow hedging instruments	1.7	(2.3)
Actuarial (losses)/gains on defined benefit pension schemes	(2.9)	(7.5)
Total tax credit in the statement of comprehensive income	(1.2)	(9.8)

(d) Factors that may affect future tax charges

The Chancellor has announced the main rate of corporation tax will be 24%, from April 2012, 23% from April 2013, 21% from April 2014 and 20% from April 2015.

The reduction to 23% has had the effect of reducing the net deferred tax asset included in the above figures by £1.5m, with £1.4m being credited to the income statement and £2.9m being charged directly to the statement of comprehensive income.

The reduction in the main rate of UK corporation tax from 23% to 21% was substantively enacted on 2 July 2013 and is effective from 1 April 2014. This will reduce the Group's future tax charge accordingly.

If the rate change from 23% to 21% had been substantively enacted at 30 June 2013 it would have had the effect of reducing the net deferred tax asset of £27.4m (Group: £23.5 asset, joint ventures £3.9m asset) held at this date by £3.3m, with £2.8m being credited to the income statement and £6.1m being charged directly to the statement of comprehensive income.

It has not been possible to fully quantify the anticipated effect of the further 1% rate reduction from 21% to 20%, although this is expected to reduce the Group's future tax charge and reduce deferred tax assets accordingly.

(e) Tax losses

At the balance sheet date the Group has unused income tax losses of £10.3m (2012: £10.0m) available for offset against future profits. A deferred tax asset has been recognised in respect of £10.2m (2012: £9.3m) of these losses. No deferred tax asset has been recognised in respect of the remaining losses, due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

10 Dividends

Amounts recognised as distributions to equity holders in the year:

	2013 £m	2012 £m
Final dividend for the year ended 30 June 2012 of 44.5 pence (2011: 44.0 pence)	17.3	16.6
Interim dividend for the year ended 30 June 2013 of 21.5 pence (2012: 21.5 pence)	8.5	8.2
	25.8	24.8

The proposed final dividend of 46.5 pence (2012: 44.5 pence) bringing the total dividend for the year to 68.0 pence (2012: 66.0 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 £25.4m will be paid on 27 November 2013 to shareholders on the register at the close of business on 15 September 2013. A scrip dividend alternative will be offered.

11 Earnings per share

A reconciliation of profit and earnings per share, as reported in the income statement, to 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 relating to contract rights.

	2013		2012	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	37.6	37.6	54.2	54.2
Add: exceptional items	17.0	17.0	3.6	3.6
Tax thereon	(3.7)	(3.7)	(0.8)	(0.8)
Add: amortisation of intangible assets relating to contract rights	3.4	3.4	3.4	3.4
Tax thereon	(0.8)	(0.8)	(0.8)	(0.8)
Adjusted earnings	53.5	53.5	59.6	59.6
	million	million	million	million
Weighted average number of shares	39.3	39.3	38.0	38.0
Weighted average impact of LTIP and Sharesave Scheme	-	0.4	-	0.7
Weighted average number of shares used for earnings per share	39.3	39.7	38.0	38.7
	pence	pence	pence	pence
Earnings per share	95.8	94.8	142.6	140.1
Adjusted earnings per share (excluding exceptional items and the amortisation of intangible assets relating to contract rights)	136.2	134.9	156.8	154.0

On 8 July 2013 14.7m shares were issued in connection with the acquisition of May Gurney Integrated Services plc. (See note 31 for further details).

Notes to the consolidated financial statements

For the year ended 30 June 2013

12 Intangible assets

	Goodwill £m	Contract rights £m	Computer software £m	Total £m
Cost				
At 1 July 2011	13.4	32.4	-	45.8
Additions	-	-	4.5	4.5
Acquired on acquisitions	-	1.0	-	1.0
At 30 June 2012 and 1 July 2012	13.4	33.4	4.5	51.3
Additions	-	5.5	-	5.5
At 30 June 2013	13.4	38.9	4.5	56.8
Amortisation				
At 1 July 2011	-	18.8	-	18.8
Charge for the year	-	3.4	0.3	3.7
At 30 June 2012 and 1 July 2012	-	22.2	0.3	22.5
Charge for the year	-	3.4	0.9	4.3
At 30 June 2013	-	25.6	1.2	26.8
Net book value				
At 30 June 2013	13.4	13.3	3.3	30.0
At 30 June 2012	13.4	11.2	4.2	28.8
At 30 June 2011	13.4	13.6	-	27.0

Goodwill relates to the acquisition of Kier Partnership Homes Limited (£5.2m), Kent LEP (£0.7m), Pure Recycling Limited (£4.8m), Beco Limited (£2.6m) and Kier Developments Limited (£0.1m). These balances have been subject to an annual impairment review based upon the projected profits of each business.

Contract rights relate to:

- the acquisition by the Group of the business and assets of the construction and building services operations of Sheffield City Council (£21.3m), Harlow Council (£0.8m), Stoke-on-Trent City Council (£1.9m) and North Tyneside Council (£6.5m). These contracts are in partnership with the respective councils who have retained a participatory ownership interest and the rights for a minority share of the profits. These profit shares are reflected in the income statement as attributable to minority interests. The amounts for the year to June 2013 are: Sheffield City Council £nil (2012: £nil), Harlow Council £0.5m (2012: £0.5m), Stoke-on-Trent City Council £0.3m (2012: £0.5m) and North Tyneside Council £0.2m (2012: £0.1m);
- the acquisition of the Kent LEP (£1.3m), Pure Recycling Limited (£2.0m), Stewart Milne (£1.0m);
- the acquisition by the Group of a commercial refuse collections business from Wealdon District Council (£3.6m).

Contract rights are amortised on a straight-line basis over the remaining contract life.

13 Property, plant and equipment

	Land and buildings £m	Plant, vehicles and fixtures £m	Mining assets £m	Total £m
Cost				
At 1 July 2011	44.0	115.2	31.4	190.6
Additions	9.3	18.8	13.0	41.1
Disposals	(1.8)	(12.0)	-	(13.8)
Transferred to assets held for sale	-	(35.1)	-	(35.1)
Currency realignment	-	0.1	-	0.1
At 30 June 2012 and 1 July 2012	51.5	87.0	44.4	182.9
Additions	8.8	12.7	5.5	27.0
Disposals	(0.1)	(6.3)	-	(6.4)
Transferred to assets held for sale	-	(12.5)	-	(12.5)
Currency realignment	-	0.2	-	0.2
At 30 June 2013	60.2	81.1	49.9	191.2
Accumulated depreciation				
At 1 July 2011	(4.9)	(67.7)	(22.0)	(94.6)
Charge for the year	(0.7)	(11.7)	(1.5)	(13.9)
Disposals	1.0	8.3	-	9.3
Transferred to assets held for sale	-	19.2	-	19.2
Currency realignment	-	(0.1)	-	(0.1)
At 30 June 2012 and 1 July 2012	(4.6)	(52.0)	(23.5)	(80.1)
Charge for the year	(1.5)	(8.1)	(3.1)	(12.7)
Disposals	0.1	5.1	-	5.2
Transferred to assets held for sale	-	5.7	-	5.7
Currency realignment	-	(0.1)	-	(0.1)
At 30 June 2013	(6.0)	(49.4)	(26.6)	(82.0)
Net book value				
At 30 June 2013	54.2	31.7	23.3	109.2
At 30 June 2012	46.9	35.0	20.9	102.8
At 30 June 2011	39.1	47.5	9.4	96.0

The net book value of plant, vehicles and fixtures includes an amount of £13.7m (2012: £8.6m) in respect of assets held under finance leases and a related depreciation charge for the year of £1.5m (2012: £0.5m). The cost of these assets at 30 June 2013 is £15.7m (2012: £9.1m).

Notes to the consolidated financial statements

For the year ended 30 June 2013

14 Investment in joint ventures

(a) Movements in year

	2013 £m	2012 £m
Investment in joint ventures		
At 1 July	7.5	9.1
Additions	21.7	7.5
Loan repayments	-	(0.6)
Disposals	(3.2)	(1.1)
Share of trading results after taxation	0.9	1.3
Net income/(expense) recognised directly in equity	4.7	(10.7)
Deferred tax charge/(credit) on items recognised directly in equity	(1.7)	2.3
Dividends received	(0.2)	(0.3)
At 30 June	29.7	7.5

(b) Analysis of investment

	2013 Total £m	2012 Total £m
Investment in joint ventures		
Property, plant and equipment	28.3	3.5
Deferred tax assets	4.3	5.0
Other non-current assets	116.4	157.8
Current assets	35.4	32.0
Gross assets	184.4	198.3
Trade and other payables – current	(19.2)	(13.0)
Borrowings – non-current	(130.9)	(169.3)
Financial instruments	(15.8)	(21.0)
Deferred tax liabilities	(0.4)	(3.8)
Net external liabilities	18.1	(8.8)
Loans provided to joint ventures	11.6	16.3
Total investment in joint ventures	29.7	7.5

The Group has provided guarantees to support borrowing facilities of joint ventures as follows:

	Borrowing facility £m	Guarantee £m	Drawn at June 2013 £m
Solum Regeneration LP	19.0	9.5	10.2
Kier Sydenham LP	36.0	36.0	32.5
Biogen (UK) Limited	12.0	12.0	-
	67.0	57.5	42.7

Other than as disclosed above the liabilities of the joint ventures are without recourse to the Group. Details of the Group's interests in joint ventures are given on page 112.

15 Deferred tax

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

	Intangible assets £m	Property, plant and equipment £m	Short-term temporary differences £m	Retirement benefit obligations £m	Tax losses £m	Total £m
At 30 June 2011	(0.8)	(0.5)	25.4	7.7	2.2	34.0
Credit/(charge) to income	0.1	0.8	(12.9)	(1.3)	-	(13.3)
Credit direct to comprehensive income	-	-	-	7.5	-	7.5
Share-based payments charged to equity	-	-	(0.3)	-	-	(0.3)
At 30 June 2012	(0.7)	0.3	12.2	13.9	2.2	27.9
Credit/(charge) to income	0.1	2.5	(3.9)	(5.4)	0.2	(6.5)
Credit direct to comprehensive income	-	-	-	2.9	-	2.9
Share-based payments charged to equity	-	-	(0.8)	-	-	(0.8)
At 30 June 2013	(0.6)	2.8	7.5	11.4	2.4	23.5

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

	Assets			Liabilities		Net
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Intangible assets	-	-	(0.6)	(0.7)	(0.6)	(0.7)
Property, plant and equipment	4.9	3.7	(2.1)	(3.4)	2.8	0.3
Inventories	6.1	8.6	-	-	6.1	8.6
Payables	12.4	12.7	(11.8)	(12.3)	0.6	0.4
Retirement benefit obligations	11.4	14.2	-	(0.3)	11.4	13.9
Share-based payments	0.8	3.2	-	-	0.8	3.2
Tax losses	2.4	2.2	-	-	2.4	2.2
Total	38.0	44.6	(14.5)	(16.7)	23.5	27.9
Set-off tax	(14.5)	(16.4)	14.5	16.4	-	-
Net tax assets/(liabilities)	23.5	28.2	-	(0.3)	23.5	27.9

16 Inventories

	2013 £m	2012 £m
Raw materials and consumables	4.1	5.8
Construction contracts in progress	63.3	39.3
Land and work in progress held for development	322.2	342.1
Other work in progress	9.8	7.5
	399.4	394.7

17 Construction contracts

Contracts in progress at the balance sheet date comprise contract costs incurred plus recognised profits less losses of £7,576.3m (2012 restated: £7,657.0m), less progress billings received and receivable of £7,845.3m (2012: £8,065.0m).

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

	2013 £m	Restated* 2012 £m
Inventories	63.3	39.3
Trade and other payables	(332.3)	(447.3)
	(269.0)	(408.0)

* See note 22.

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18 Trade and other receivables

	2013 £m	2012 £m
Current:		
Trade receivables	233.1	280.2
Construction contract retentions	38.8	43.2
Amounts receivable from joint ventures	0.9	0.3
Other receivables	30.6	25.2
Prepayments and accrued income	42.2	28.6
	345.6	377.5
Non-current:		
Construction contract retentions	16.1	19.6
Other receivables	13.5	13.3
	29.6	32.9

19 Assets held for sale

	2013 £m	2012 £m
Assets held for sale	4.2	13.0

This represents the fair value less provision for disposal costs of the tower crane assets sold on 5 August 2013. Further details of this disposal are provided in note 31.

20 Cash, cash equivalents and borrowings

	2013 £m	2012 £m
Bank balances and cash in hand	152.3	137.5
Bank deposits with a maturity of less than three months	-	21.6
Cash and cash equivalents	152.3	159.1
Borrowings due within 1 year	-	(30.3)
Borrowings due after 1 year	(92.5)	-
Net funds	59.8	128.8

Cash and cash equivalents include £30.4m (2012: £27.1m) being the Group's share of cash and cash equivalents held by joint arrangements, £48.3m (2012: £57.6m) of cash that cannot be offset against other Group bank balances and £3m of restricted cash held in relation to the Sydenham retail park transaction as described in note 29.

Information on borrowings is detailed in note 27.

21 Finance lease obligations

	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
At 1 July 2012	9.6	(1.0)	8.6
New obligations	7.1	(0.5)	6.6
Repayments	(1.9)	0.4	(1.5)
At 30 June 2013	14.8	(1.1)	13.7

Finance lease liabilities are payable as follows:

	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
Less than one year	3.1	(0.4)	2.7
Between two and five years	10.9	(0.6)	10.3
Over five years	0.8	(0.1)	0.7
At 30 June 2013	14.8	(1.1)	13.7

22 Trade and other payables

	2013 £m	Restated* 2012 £m
Current:		
Payments received on account	7.6	4.0
Trade payables	185.9	154.5
Sub-contract retentions	55.2	54.3
Construction contract balances	332.3	447.3
Deferred consideration on acquisitions	27.7	32.2
Other taxation and social security costs	27.8	24.2
Other payables	22.0	15.2
Accruals and deferred income	96.0	84.9
	754.5	816.6
Non-current:		
Trade payables	0.8	3.3
Sub-contract retentions	4.3	5.6
Deferred consideration on acquisitions	-	26.5
Accruals and deferred income	1.0	1.8
	6.1	37.2

* Trade payables have been represented to show sub-contract retentions separately and include contract accruals in construction contract balances.

23 Provisions

	Insurance claims £m	Restoration of mining sites £m	Other provisions £m	Total £m
At 1 July 2012	19.6	13.7	16.3	49.6
Reversed	-	(3.0)	(0.6)	(3.6)
Utilised	(5.5)	(0.1)	(9.2)	(14.8)
Unwinding of discount	-	1.3	-	1.3
Additions	13.1	4.9	6.9	24.9
At 30 June 2013	27.2	16.8	13.4	57.4

Insurance provisions are in respect of legal and other disputes in various Group companies. Mining provisions represent the cost of restoration of opencast mining activities, see note 1 – mining assets. Other provisions primarily represent contractual obligations on cessation of certain contracts.

Notes to the consolidated financial statements

For the year ended 30 June 2013

23 Provisions continued

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

	2013 £m	2012 £m
Due within one year	17.6	1.8
Due after one year	39.8	47.8
	57.4	49.6

Due to the nature of the provision for insurance claims, the timing of any potential future outflows in respect of these liabilities is uncertain.

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

24 Share capital and reserves

Share capital

The share capital of the Company comprises:

	2013		2012	
	Number	£m	Number	£m
Issued and fully paid shares of 1p each	39,848,072	0.4	38,823,184	0.4

During the year 1,024,888 ordinary shares were issued at a total premium of £8,289,486, of which 102,669 were issued as a scrip dividend alternative at a premium of £1,336,493 and 922,219 were issued under the Sharesave Scheme at a premium of £6,952,993.

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

On 8 July 2013 14.7m shares were issued in connection with the acquisition on May Gurney Integrated Services plc. See note 31 for further details.

Cash flow hedge reserve

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

Translation reserve

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

25 Share-based payments

Options and awards over the Company's ordinary shares at 30 June 2013 were as follows:

	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	LTIP 2011 award	LTIP 2012 award	LTIP 2013 award	Total
Date of grant	30 April 2010	28 April 2011	27 April 2012	3 May 2013	15 November 2010	17 November 2011	13 September 2012	
Awards outstanding at								
30 June 2013								
- directors	-	-	1,714	-	111,325	105,985	135,008	354,032
- employees	183,677	182,788	576,268	396,482	439,820	420,430	504,405	2,703,870
	183,677	182,788	577,982	396,482	551,145	526,415	639,413	3,057,902

Sharesave Scheme

Options were granted on 3 May 2013 at an exercise price of 1,050p. These are exercisable at the holders' discretion from 1 July 2016 until 1 January 2017.

LTIP

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

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

	Number of shares	2013 £m	Number of shares	2012 £m
At 1 July	612,489	10.1	522,664	9.2
Acquired during the year	140,546	2.0	89,825	0.9
Issued in satisfaction of awards and other schemes	(297,349)	(6.0)	-	-
At 30 June	455,686	6.1	612,489	10.1

The market value of these shares at 30 June 2013 was £5.2m. The dividends on these shares have been waived.

A description of these schemes and the terms and conditions of each scheme are included in the directors' remuneration report on pages 58 to 67.

Value of share schemes

The fair value per option granted has been calculated using the following assumptions. These calculations are based on the Black-Scholes model for all options apart from the TSR element of the LTIP which is based on a stochastic model.

	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	LTIP 2011 award (EPS element)	LTIP 2011 award (TSR element)	LTIP 2012 award (EPS element)	LTIP 2012 award (TSR element)	LTIP 2013 award (EPS element)	LTIP 2013 award (TSR element)
Date of grant	30 April 2010	28 April 2011	27 April 2012	3 May 2013	15 November 2010	15 November 2010	17 November 2011	17 November 2011	13 September 2012	13 September 2012
Share price at grant	1,140p	1,330p	1,172p	1,187p	1,271p	1,271p	1,398p	1,398p	1,399p	1,399p
Exercise price	1,025p	1,150p	1,050p	1,050p	nil	nil	nil	nil	nil	nil
Option life	3 years	3 years	3 years	3 years	3 years	3 years				
Expected volatility	42.4%	38.5%	32.8%	27.2%	N/A	41.3%	N/A	31.6%	N/A	28.1%
Dividend yield	4.9%	4.5%	5.6%	5.6%	4.6%	4.6%	4.6%	4.6%	4.7%	4.7%
Risk-free interest rate	1.7%	1.6%	0.7%	0.4%	N/A	1.2%	N/A	0.7%	N/A	0.4%
Value per option	291.0p	325.0p	209.7p	174.6p	1,108.5p	684.1p	1,218.5p	868.9p	1,214.3p	627.8p

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

The fair value of the TSR element incorporates an assessment of the number of shares that will be awarded, as the performance conditions are market conditions under IFRS 2 'Share-based payments'.

The performance conditions of the EPS element are non-market conditions under IFRS 2. The fair value therefore does not include an assessment of the number of shares that will be awarded. Instead the amount charged for this element is based on the fair value factored by a 'true-up' for the number of awards that are expected to vest.

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

The total charge for the year relating to share-based payment plans was:

	2013 £m	2012 £m
Equity-settled	4.0	2.9
Cash-settled including employer's national insurance	-	0.2
Total charge recognised as employee costs	4.0	3.1

Included in other payables is an amount of £0.3m (2012: £0.8m) relating to provisions for employer's national insurance and cash-settled share-based payments.

Notes to the consolidated financial statements

For the year ended 30 June 2013

25 Share-based payments continued

A reconciliation of option movements is shown below:

	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 July	3,483,182	533.8p	2,917,885	490.6p
Forfeited	(331,015)	381.6p	(681,088)	350.4p
Exercised	(1,192,027)	578.5p	(37,122)	803.2p
Granted	1,097,762	504.3p	1,283,507	542.5p
Outstanding at 30 June	3,057,902	464.9p	3,483,182	533.8p
Exercisable at 30 June	-	-	-	-

The options outstanding at 30 June 2013 have a weighted average contractual life of 3.0 years (2012: 1.7 years).

26 Guarantees and contingent liabilities

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

27 Financial instruments

Capital risk management

The Group's capital management objectives are; to ensure the Group's ability to continue as a going concern; to optimise the capital structure in order to minimise the cost of capital; and to maintain a strong balance sheet to support business development and tender qualification. The three operating divisions of the Group have complementary capital characteristics, with the Construction division, and to a lesser extent the Services division, generating a net cash surplus, whilst the Property division requires net capital to fund developments. The Group's capital management strategy is to use a blend of capital types with different risk, return and maturity profiles to support the operating divisions and deliver the Group's capital management objectives. The Group's overall capital risk management strategy remains unchanged from 2012.

The capital structure of the Group comprises: equity, consisting of share capital, share premium, retained earnings and other reserves as disclosed in the consolidated statement of changes in equity; and cash, cash equivalents and borrowings as disclosed in note 20 and described further below. The Group forecasts and monitors short, medium and longer-term capital needs on a regular basis and adjusts its capital structure as required through the payment of dividends to shareholders, the issue of new share capital and the increase or repayment of borrowings. All investment decisions are made with regard to the Group's weighted average cost of capital and typically a pre-tax annualised return of at least 15% is required to ensure such investments are value enhancing for shareholders.

Financial risk management

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

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

Credit risk

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

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

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

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

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

	2013 £m	2012 £m
Provision as at 1 July	1.2	5.4
Charged/(credited) to the income statement	0.1	(4.2)
Provision as at 30 June	1.3	1.2

There are £13.2m (2012: £41.4m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £7.7m (2012: £29.9m) had been received by the end of August 2013. There are no indications as at 30 June 2013 that the debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are overdue and unprovided. The proportion of trade receivables at 30 June 2013 that were overdue for payment was 5.7% (2012: 15%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Construction	46 days (2012: 54 days)
Services	34 days (2012: 37 days)

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

Market risk

Interest rate risk

The Group has mitigated part of its exposure to interest rate fluctuations through an issue, in December 2012, of 7 and 10-year loan notes, principal amounts of £45m and USD28m. Loan notes denominated in US dollars were hedged back-to-back with cross-currency swaps. The loan notes carry fixed rates of interest.

The Group has borrowing facilities to finance short-term working capital requirements and term loans to finance medium-term capital requirements, which carry interest at floating rates, at a margin over LIBOR.

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

Foreign currency risk

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

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

Liquidity risk

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

Derivative financial instruments

	Current liabilities £m	Non-current liabilities £m	Total liabilities £m
At 30 June 2013			
Fuel price forward contracts	(0.1)	(0.5)	(0.6)

Fuel price forward contracts have been accounted for as derivatives held at fair value through the income statement. The fair value of these contracts has been determined based on a level 2 valuation method, using valuation techniques that include inputs that are based on observable market data.

During the year Kier Group plc entered in to three cross-currency fixed interest rate swaps to hedge the interest rate and currency risk on a US dollar denominated loan, nominal value USD 28m. These swaps have met the criteria for hedge accounting and as a result have been recognised directly in equity.

The following table indicates the periods in which the cashflows associated with cash flow hedges are expected to occur, how those cashflows will impact the income statement and the fair value of the related hedging instruments.

	Fair Value £m	Expected cash flows				
		Total £m	0-1 years £m	1-2 years £m	2-5 years £m	more than 5 years £m
Interest rate swaps						
Assets	-	7.6	0.9	0.9	2.6	3.2

In addition to the above, a number of the Group's PFI joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. Interest-bearing debts and associated interest rate derivatives within these joint ventures have a typical term of between 25 and 30 years and are without recourse to the Group. At 30 June 2013 the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £175.9m. The Group's share of the total net fair value liability of these interest rate derivatives at 30 June 2013, based on quoted prices in active markets, amounted to £16.5m which, together with the related deferred tax asset of £3.9m, have met the criteria for hedge accounting and as a result have been recognised directly in equity.

Notes to the consolidated financial statements

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27 Financial instruments continued

Financial assets – analysis by currency and maturity dates

At 30 June 2013 the Group had cash and short-term deposits denominated in the following currencies:

	2013 £m	2012 £m
Currency:		
Sterling	129.1	135.0
US dollar	2.6	1.4
Euro	2.1	2.4
Hong Kong dollar	15.8	11.2
UAE dirham	5.0	8.8
Other	2.0	0.3
Total	156.6	159.1

Financial liabilities – analysis of maturity dates

At 30 June 2013 the Group had the following financial liabilities together with the maturity profile of their contractual cash flows:

	Trade payables £m	Deferred consideration on acquisition £m	Borrowings £m	Finance lease obligations £m	Derivative financial instruments £m	Total £m
30 June 2013						
Carrying value	186.7	27.7	92.5	13.7	0.6	321.2
Contractual cash flows						
Less than one year	185.9	28.1	2.9	3.1	0.1	220.1
One to two years	0.8	-	2.9	3.0	0.2	6.9
Two to three years	-	-	2.9	3.0	0.3	6.2
Three to four years	-	-	32.9	2.8	-	35.7
Four to five years	-	-	2.9	2.1	-	5.0
Over five years	-	-	71.8	0.8	-	72.6
	186.7	28.1	116.3	14.8	0.6	346.5

	Restated*					Restated*
30 June 2012						
Carrying value	157.8	58.7	30.3	8.6	0.6	256.0
Contractual cash flows						
Less than one year	154.5	33.0	30.3	1.5	0.3	219.6
One to two years	3.3	27.8	-	1.5	0.3	32.9
Two to three years	-	-	-	1.5	-	1.5
Three to four years	-	-	-	1.5	-	1.5
Four to five years	-	-	-	1.5	-	1.5
Over five years	-	-	-	2.1	-	2.1
	157.8	60.8	30.3	9.6	0.6	259.1

* Trade payables at June 2012 have been restated see note 22 for details.

There is no material difference between the carrying value and fair value of the Group's financial liabilities. The carrying value is calculated by discounting expected future cash flows.

Borrowings

Borrowings represent loan notes, principal amounts of £45m and USD28m with fixed coupons of between 4.2% and 4.9% and a term loan of £30m, at a margin over LIBOR, net of capitalised interest costs of £0.2m.

Loan notes are repayable in two repayments, December 2019 and December 2022. The term loan is repayable January 2017.

Borrowing facilities

The Group has £120.0m (2012: £120.0m) of unsecured committed borrowing facilities due for renewal in September 2016.

These facilities are subject to certain covenants linked to the Group's financing structure, specifically regarding the ratios of debt to interest and profit, and consolidated tangible net worth. The Group has complied with these covenants throughout the period.

In addition the Group has £20m (2012: £10.0m) of unsecured overdraft facilities repayable on demand.

28 Financial and capital commitments

	2013 £m	2012 £m
Commitments for capital expenditure in subsidiaries	2.3	4.9
Commitments for equity and subordinate debt in PFI joint ventures	25.2	-
	27.5	4.9

Non-cancellable operating lease rentals are payable as follows:

	2013		2012	
	Property £m	Plant and machinery £m	Property £m	Plant and machinery £m
Within one year	4.3	16.5	4.0	12.3
Between one and five years	7.7	25.2	10.6	21.4
Over five years	6.3	2.3	4.3	-
	18.3	44.0	18.9	33.7

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

29 Related parties

Identity of related parties

The Group has a related party relationship with its joint arrangements, joint ventures, key management personnel and pension schemes in which its employees participate.

Transactions with key management personnel

The Group's key management personnel are the executive and non-executive directors as identified in the directors' remuneration report on pages 58 to 67.

In addition to their salaries, the Group also provides non-cash benefits to directors and contributes to a post-employment defined benefit plan on their behalf.

Key management personnel also participate in the Group's share option programme (see note 25).

Key management personnel compensation comprised:

	2013 £m	2012 £m
Total emoluments as analysed in the directors' remuneration report	3.0	3.2
Employers' national insurance contributions	0.4	0.4
Total short-term employment benefits	3.4	3.6
Share-based payment charge	0.8	2.0
	4.2	5.6

In October 2010, Kier Homes Limited entered into a consultancy agreement with Princegate Estates PLC (Princegate), under which Princegate provided the Group with the services of Mr John Anderson to act as the managing director of the Group's private house-building business. The arrangements were terminated with effect from 30 June 2012. During the year payments of £18,000 became due for services provided by Princegate (2012: £445,000).

The Group has entered into arrangements with Mission Recycling Worcester Limited (Mission) to sell recycled commodities through its subsidiary, Pure Recycling Warwick Limited (Pure). Mission is deemed a related party of the Group as it shares a common director with Pure. The Group generated revenue levels of £5.2m in the year (2012: £7.6m) on an arm's length basis through transactions with Mission. At 30 June 2013, £0.4m (2012: £0.7m) was owed to the Group by Mission, of which none was provided for (2012: £nil). No bad debts with respect to amounts owed by Mission were written off during the year (2012: £nil).

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For the year ended 30 June 2013

29 Related parties continued

Transactions with pension schemes

Details of transactions between the Group and pension schemes in which its employees participate are detailed in note 8.

Transactions with joint arrangements and joint ventures

	2013 £m	2012 £m
Construction services and materials	41.1	54.3
Staff and associated costs	1.2	0.8
Management services	0.7	1.1
Interest on loans to joint ventures	1.3	1.5
	44.3	57.7

Amounts due from joint ventures are analysed below:

	2013 £m	2012 £m
ASK (Greenwich) Limited	-	0.7
Blue 3 (Gloucestershire Fire) Limited	-	1.6
Information Resources (Bournemouth) Limited	-	0.7
Information Resources (Oldham) Limited	0.9	0.9
Justice Support Services (Norfolk and Suffolk) Limited	3.4	3.4
Justice Support Services (North Kent) Limited	1.9	1.7
Kent PFI Company 1 Limited	6.1	6.3
Prospect Healthcare (Ipswich) Limited	-	1.3
	12.3	16.6

30 Acquisitions and disposals

(a) Summary of consideration paid and payable in respect of acquisitions

	Beco Developments Limited £m	Kier Developments Limited £m	North Tyneside Council £m	Pure Recycling £m	Total £m
Total discounted consideration payable	2.3	87.1	6.9	6.4	102.7
Paid at 30 June 2012	(1.5)	(35.0)	(5.4)	(5.3)	(47.2)
Credited to the income statement	(0.7)	-	-	(0.3)	(1.0)
Paid during the year to 30 June 2013	(0.3)	(30.0)	-	(1.2)	(31.5)
Unwinding of discount	0.3	3.6	0.4	0.4	4.7
Deferred at 30 June 2013	0.1	25.7	1.9	-	27.7

Acquisition of investment in Beco Limited

On 22 November 2010 the Group, through its subsidiary Kier Limited, purchased the entire issued share capital of Beco Limited. The discounted consideration, payable wholly in cash, was £2.3m, representing the fair value of the net assets. The deferred consideration is contingent on the results of the business acquired. It has been discounted to its present value.

Acquisition of investment in Kier Developments Limited

On 14 April 2011 the Group, through its subsidiary Kier Property Limited, acquired from Lloyds Banking Group its 50% interest in the jointly owned Kier Developments Limited incorporating a portfolio of real estate assets. As a result of the transaction, Kier Property Limited now owns the entire issued share capital of Kier Developments Limited. The remaining deferred consideration is a fixed payment of £26.0m in October 2013. It has been discounted to its present value.

Acquisition of the business and assets of the construction and building services operation of North Tyneside Council

On 6 September 2009 the Group, through its subsidiary Kier North Tyneside Limited, acquired the business and assets of the building services operation of North Tyneside Council. The remaining deferred consideration is a fixed payment of £2m due by March 2014. It has been discounted to its present value.

(b) Investments in joint ventures**Acquisition of Biogen (UK) Limited**

On 2 August 2012, the Group through its subsidiary Kier Project Investment Limited entered into an agreement to invest £24.4m over a four-year period in Biogen (UK) Limited, establishing a 50/50 joint venture with the owner of Bedfordia Group plc. The Group invested £7.9m during the year, a further £16.5m will be invested over the next three years.

(c) Disposal of investments in joint ventures

During the year the Group, through its subsidiary Kier Project Investment Limited, sold its investments in the following joint ventures:

Ask (Holdings) Limited; Ask (Greenwich) Limited; Information Resources (Holdings) Limited; Information Resources (Bournemouth) Limited; Prospect Healthcare (Ipswich) Limited; Prospect Healthcare (Ipswich) Holding Limited; Blue3 (Gloucestershire Fire) (Holdings) Limited; and Blue3 (Gloucestershire Fire) Limited.

The disposal proceeds can be reconciled to the profits on disposal as follows:

	2013 £m	2012 £m
Sales proceeds	13.0	8.1
Book value of net assets and loans of joint ventures	(3.1)	(1.1)
Sale costs and loan interest receivable included in sales proceeds	(0.1)	(0.3)
Profit on disposal	9.8	6.7

(d) Sale of Plant business

On 31 July 2012 and 1 August 2012, the Group through its subsidiary Kier Plant Limited, sold two portfolios of assets for an aggregate consideration of £15.5m (Wernick Hire Limited (Wernick): £11.6m and Ashtead Plant Hire Company Limited (Ashtead): £3.9m). The total loss on disposal, £3.2m was recorded in the income statement for the year to June 2012 as an exceptional item. The disposal proceeds can be reconciled to the loss as follows:

	£m
Maximum aggregate consideration	15.5
Less element of consideration attributable to future trading agreements with Wernick and Ashtead	(1.0)
Less provision for disposal costs	(1.5)
Fair value less provision for disposal costs	13.0
Carrying value of assets sold	(16.2)
Loss	(3.2)

31 Subsequent events**(a) Sale of Plant business**

On 5 August 2013, the Group through its subsidiary Kier Plant Limited, sold the remainder of its plant business for a consideration of £5.2m. The total impact of this disposal is a loss of £2.6m which has been recorded in the income statement for the year to June 2013 as an exceptional item. The disposal proceeds can be reconciled to the loss as follows:

	£m
Maximum aggregate consideration	5.2
Less provision for disposal costs	(1.0)
Fair value less provision for disposal costs	4.2
Carrying value of assets sold	(6.8)
Loss	(2.6)

The carrying value of the assets sold includes £6.8m originally held in property, plant and equipment.

(b) Acquisition of May Gurney Integrated Services plc

The Group purchased the entire share capital of May Gurney Integrated Services plc on 8 July 2013 for a total consideration of £222.8m. May Gurney provides support services and delivers a wide range of essential front-line services to the public and regulated sectors.

The acquisition represents an excellent opportunity to accelerate Kier's strategy for its Services division. The Kier Board believes the acquisition is highly complementary and will provide an increased breadth of services, skills, geographic coverage and operating efficiencies, representing an attractive proposition for its clients (and those of the enlarged Group) and enhanced value for the shareholder base of the enlarged Group.

Due to the proximity of the acquisition to Kier Group plc's reporting date, the fair values of assets and liabilities acquired have been reported at book value and are provisional to allow for further adjustments in the measurement period.

Notes to the consolidated financial statements

For the year ended 30 June 2013

31 Subsequent events continued

A comprehensive review of the carrying value of assets and liabilities will be carried out to ensure they are stated at fair value.

The goodwill primarily represents the expected synergies. None of the goodwill recognised is expected to be deductible for tax purposes.

£1.8m of acquisitions costs were incurred in the year to June 2013 and expensed to the income statement as an exceptional item, further costs have been incurred in the year to 30 June 2014.

	Book value and provisional fair value to Group at 8 July 2013 £m
Intangible assets	71.6
Property, plant and equipment	108.6
Inventories	4.0
Trade and other receivables	122.5
Trade and other payables	(166.6)
Cash and cash equivalents	16.6
Borrowings	(20.0)
Taxation	3.5
Retirement benefit obligations	(1.3)
Finance lease obligations	(62.7)
Provisions	(0.4)
	75.8
Goodwill	147.0
Total assets acquired	222.8
Satisfied by:	
Shares	183.8
Cash*	39.0
Total consideration	222.8

* Cash consideration includes a dividend of £3.9m.

(c) Borrowings

To fund the acquisition of May Gurney Integrated Services plc and the working capital requirements of the enlarged business, the Group entered into a £50m term loan repayable September 2016 and a £70m revolving credit facility due for renewal September 2016. Both facilities bear interest at floating rates.

Company balance sheet

At 30 June 2013

(registered company number 2708030)

	Notes	2013 £m	2012 £m
Fixed assets			
Investment in subsidiary undertakings	5	90.3	90.3
Current assets			
Debtors	6	8.7	10.0
Cash at bank and in hand		139.3	125.3
		148.0	135.3
Current liabilities			
Creditors – amounts falling due within one year	7	(39.7)	(127.6)
Net current assets		108.3	7.7
Total assets less current liabilities		198.6	98.0
Creditors – amounts falling due after more than one year	7	(92.5)	-
Net assets		106.1	98.0
Capital and reserves			
Share capital	8	0.4	0.4
Share premium	9	63.3	55.0
Merger relief reserve	9	1.2	1.2
Capital redemption reserve	9	2.7	2.7
Sharescheme reserve	9	1.0	(2.1)
Profit and loss account	9	37.5	40.8
Shareholders' funds	10	106.1	98.0

The financial statements were approved by the Board of directors on 11 September 2013 and were signed on its behalf by:

Paul Sheffield

Haydn Mursell

Directors

Notes to the Company financial statements

For the year ended 30 June 2013

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared under the historical cost convention, on the going concern basis and in accordance with UK GAAP.

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

Fixed asset investments

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

Deferred taxation

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

Own shares

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

Share-based payments

The Company issues equity-settled share-based payments under the Sharesave and LTIP schemes. The fair value of these schemes at the date of grant is expressed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. Share-based payments are charged wholly to the ultimate parent company, which makes internal recharges to subsidiaries for these services as appropriate.

Financial instruments

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

The consolidated financial statements include disclosures in note 27 under IFRS 7 which comply with FRS 29 'Financial Instruments and Disclosures'. Consequently, the Company has taken advantage of certain exemptions in FRS 29 from the requirement to present separate financial instrument disclosures for the Company.

2 Profit for the year

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

The auditor's remuneration for audit services to the Company was £0.1m (2012: £0.1m). Non audit services £1.2m (2012: nil).

Other services mainly comprise £0.9m relating to due diligence in connection with the acquisition of May Gurney and £0.2m for advice in connection with the Group's organisational efficiency and cost base reduction project.

3 Information relating to directors and employees

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 58 to 67. The Company has no employees other than the directors.

4 Dividends

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

5 Fixed assets – investments

	£m
Cost at 1 July 2012 and 30 June 2013	105.3
Provision for diminution in value	
At 1 July 2012	(15.0)
Movement during the year	-
At 30 June 2013	(15.0)
Net book value at	
30 June 2013	90.3
30 June 2012	90.3

6 Debtors

	2013 £m	2012 £m
Amounts falling due within one year:		
Amounts due from subsidiary undertaking	-	2.4
Other debtors	5.6	7.2
Deferred tax	0.7	-
Corporation tax	2.4	0.4
	8.7	10.0

7 Creditors

	2013 £m	2012 £m
Amounts falling due within one year:		
Bank overdrafts and loans	-	71.9
Borrowings	-	30.3
Amounts due to subsidiary undertakings	36.8	20.2
Other creditors	2.9	5.2
	39.7	127.6

Amounts falling due after one year:

Borrowings	92.5	-
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Further details on borrowings are included in note 27 to the consolidated financial statements.

8 Share capital

Details of the share capital of the Company are included in note 24 to the consolidated financial statements.

9 Reserves

The movement in reserves is as follows:

	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Sharescheme reserve £m	Profit & loss £m
At 30 June 2011	46.9	1.2	2.7	(5.1)	43.1
Issue of shares	8.1	-	-	-	-
Movement in provision for share-based payments	-	-	-	2.8	-
Transfer of provision for share-based payments on expired schemes	-	-	-	0.2	(0.2)
Profit for the year	-	-	-	-	22.7
Dividends paid	-	-	-	-	(24.8)
At 30 June 2012	55.0	1.2	2.7	(2.1)	40.8
Issue of shares	8.3	-	-	-	-
Movement in provision for share-based payments	-	-	-	4.0	-
Purchase of own shares	-	-	-	(1.7)	-
Transfer of provision for share-based payments on expired schemes	-	-	-	0.8	(0.8)
Profit for the year	-	-	-	-	23.3
Dividends paid	-	-	-	-	(25.8)
At 30 June 2013	63.3	1.2	2.7	1.0	37.5

The balance on the sharescheme reserve comprises the investment in own shares of £6.0m (2012: £10.0m) and a credit balance on the sharescheme reserve of £7.0m (2012: reserve of £7.9m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment schemes are included in note 25 to the consolidated financial statements.

Notes to the Company financial statements

For the year ended 30 June 2013

10 Reconciliation of movement in shareholders' funds

	2013 £m	2012 £m
Opening shareholders' funds	98.0	89.2
Profit for the year	23.3	22.7
Dividends paid	(25.8)	(24.8)
Issue of shares	8.3	8.1
Movement in provision for share-based payments	2.3	2.8
Closing shareholders' funds	106.1	98.0

Principal operating subsidiaries and business units

		Notes:
Construction	<p>Kier Construction Limited</p> <ul style="list-style-type: none"> Building <ul style="list-style-type: none"> Central Central South Eastern London Major Projects Northern Scotland Southern Western & Wales Strategic Frameworks and Alliances Specialist businesses <ul style="list-style-type: none"> Engineering Process & Engineering Interiors & Refurbishment (I&R) <p>Kier Infrastructure and Overseas Limited</p>	<p>i) Each company is registered in England and Wales and operates principally within the United Kingdom. Kier Infrastructure and Overseas Limited also operates in Hong Kong, the Middle East and the Caribbean.</p> <p>ii) The Group has entered into partnership agreements with Harlow Council, North Tyneside Council, Sheffield City Council and Stoke-on-Trent City Council whereby the respective councils have a participating ownership interest and receive a minority share of the profits of Kier Harlow Limited, Kier North Tyneside Limited, Kier Sheffield LLP and Kier Stoke Limited.</p> <p>iii) The ordinary share capital of all other companies is wholly owned. Kier Group plc holds directly all the shares of Kier Limited and Kier Homes Limited. The shares of the other companies are held by subsidiary undertakings.</p> <p>iv) The Company has taken advantage of the exemption under section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results principally affected the financial statements. A full listing of all subsidiary undertakings will be annexed to the Company's next annual return.</p>
Services	<p>Kier Services Limited</p> <ul style="list-style-type: none"> Housing maintenance <ul style="list-style-type: none"> Kier Harlow Limited Kier Islington Limited Kier North Tyneside Limited Kier Sheffield LLP Kier Stoke Limited Facilities Management <ul style="list-style-type: none"> Kier Facilities Services Limited Environmental <ul style="list-style-type: none"> Pure Buildings Limited Pure Recycling Warwick Limited Asset Management <ul style="list-style-type: none"> Kier Asset Partnership Services Limited Energy Solutions <ul style="list-style-type: none"> Kier Energy Solutions Limited Insurance Management <ul style="list-style-type: none"> Kier Insurance Management Services Limited Plant and Fleet Management <ul style="list-style-type: none"> Kier Plant Limited 	
Property	<p>Kier Property Limited</p> <ul style="list-style-type: none"> Kier Developments Limited Kier Ventures Limited Kier Project Investment Limited Kier Homes Limited Kier Partnership Homes Limited 	
Corporate	<p>Kier Limited</p>	

Principal joint arrangements and joint ventures

Joint arrangements

Construction

The following joint arrangements, in which the Group participation is between 30% and 50%, operate in the United Kingdom:

KMI Plus	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited, Interserve Project Services Limited and Mouchel Limited
KMI	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited and Interserve Project Services Limited
Crossrail Contracts 300/410/435	a joint arrangement between Kier Infrastructure and Overseas Limited, BAM Nuttall Limited and Ferrovial Agroman (UK) Limited
Crossrail Contracts 501/511	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited
Hinkley Point C	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited

The following joint arrangements, in which the Group participation is between 30% and 50%, operate overseas in the territory indicated:

Hong Kong

MTRC Contract 824	a joint arrangement between Kier Infrastructure and Overseas Limited, Kaden Construction Limited and Obras Subterráneas S.A.
MTRC Contract 901	a joint arrangement between Kier Infrastructure and Overseas Limited, Laing O'Rourke Hong Kong Limited and Kaden Construction Limited

Joint ventures

Interest held

Construction

Incorporated and operating in the Kingdom of Saudi Arabia:

Saudi Comedat Co.	25%
Saudi Kier Infrastructure Overseas Limited	65%

Property

Solum Regeneration LP	50%
Biogen	50%
Kier Sydenham LP	50%

Long-term concession holding under the Private Finance Initiative

Information Resources (Oldham) Holdings Limited	50%
Justice Support Services (Norfolk and Suffolk) Holdings Limited	42.5%
Justice Support Services (North Kent) Holdings Limited	42.5%
Kent LEP1 Limited	64%
Kent PFI Holdings Company 1 Limited	78%

Notes:

- i) Joint arrangements are contracted agreements to co-operate on a specific project which is an extension of the Group's existing business. Joint ventures are ongoing businesses carrying on their own trade.
- ii) Except where otherwise stated the companies are incorporated and operate in the United Kingdom.
- iii) Interests in the above joint ventures are held by subsidiary undertakings.
- iv) The joint ventures where the Group has an interest in excess of 50% are still considered joint ventures as the Group still has joint control.

Financial record

(unaudited)

Year ended 30 June	2013 £m	2012* £m	2011* £m	2010* £m	2009* ¹ £m
Revenue: Group and share of joint ventures	1,982.8	2,069.2	2,178.8	2,098.7	2,145.6
Group operating profit	59.0	66.4	63.1	60.7	52.3
Joint ventures – share of operating profit	0.9	1.3	0.4	(1.3)	(3.8)
Profit on disposal of joint ventures	9.8	6.7	5.9	4.2	-
Total finance cost net	(6.3)	(4.4)	(0.5)	(1.0)	0.5
Profit before tax before exceptional items and amortisation relating to intangible contract rights	63.4	70.0	68.9	62.6	49.0
Exceptional items	(17.0)	(3.6)	7.0	(2.0)	(22.0)
Amortisation of intangible assets relating to contract rights	(3.4)	(3.4)	(3.4)	(2.9)	(2.2)
Profit before tax	43.0	63.0	72.5	57.7	24.8
Taxation	(4.4)	(7.7)	(10.2)	(17.2)	(7.9)
Profit for the year	38.6	55.3	62.3	40.5	16.9
Earnings per share					
– undiluted	95.8p	142.6p	166.1p	108.2p	44.1p
Dividend per share	68.0p	66.0p	64.0p	58.0p	55.0p
At 30 June					
Shareholders' funds	£158.3m	£154.2m	£164.2m	£104.2m	£89.3m
Net assets per share	397.3p	397.2p	430.3p	278.0p	239.9p

¹ The figures for 2009 were restated in 2010 in respect of the adoption of IFRIC 12 'Service concession agreements'.

*The prior year comparatives has been re-presented to separately disclose amortisation of intangible assets relating contract rights, consistent with the current year presentation.

Corporate information

Board of Directors

P M White CBE FCA – Chairman
M P Sheffield BSc CEng FICE – Chief Executive
S Bowcott BSc
H J Mursell BA ACA
R C Bailey BA ACA
C V Geoghegan BA FRAeS
A J Mellor BSc
N P Winser CEng FIET FIGEM
H E E Raven BA – Secretary

Headquarters and Registered Office

Kier Group plc
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Registered Number

England 2708030

Financial Calendar

14 November 2013

Annual general meeting

27 November 2013

Payment of final dividend for year ended
30 June 2013

February 2014

Announcement of half-year results and interim
dividend for year ending 30 June 2014

May 2014

Payment of interim dividend for year ending
30 June 2014

September 2014

Announcement of preliminary full-year
results and final dividend for year ending
30 June 2014

Auditor

KPMG Audit Plc
15 Canada Square
Canary Wharf
London
E14 5GL

Principal Bankers

Lloyds Banking Group plc
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Regent's Place
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The Royal Bank of Scotland PLC
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Registrars

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Financial Advisors

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20 Moorgate
London
EC2R 6DA

Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT



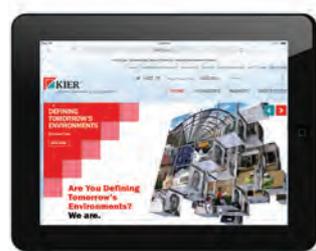
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