Kier Group plc

Building the business

Annual Report and Accounts

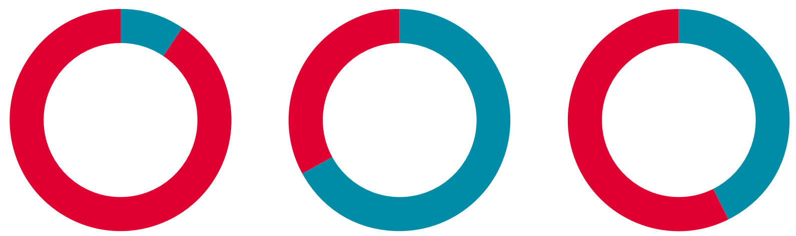
for the year ended 30 June 2000

The Kier Group structure

The financial strategy which has underpinned the Kier story since 1993 continues to deliver **remarkable returns** on shareholders' funds, once again in excess of 40%.

Contribution by operating segments

To turnover | To operating profit | To pre-tax profit



- Construction & Services
- Homes & Property

Operating segments

Construction & Services

Construction & Services comprises Kier Regional, covering mid-range and smaller contracts across the UK, Kier National, for major UK civil engineering and building projects, mining and international contracting, and Kier Support Services for facilities managment and outsourced services.

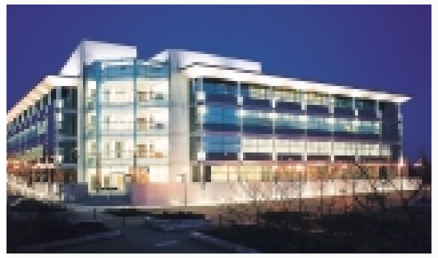
Homes & Property

Homes & Property comprises residential and commercial property development interests.

Divisions

Kier Regional page 10

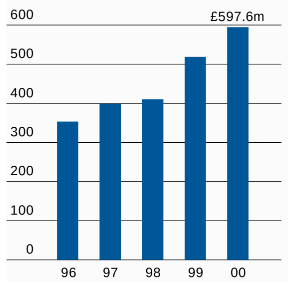
Mid-range construction contracts by locally managed business units across the UK.



Principal businesses

Kier Western
Kier Southern
Wallis
Kier London
Moss Costruction
French Kier Anglia
Marriott Construction
Kier Northern
Moss Northern
Kier Scotland
IEI Building Services Engineers

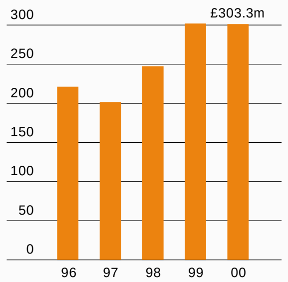
Turnover by division
£ millions



Kier National page 16

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

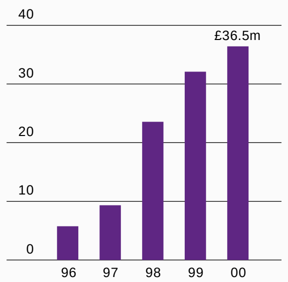
Kier Construction
Kier Mining
Kier Plant
Kier Rail
Kier Build
Kier International



Kier Support Services page 22

Comprehensive facilities management and other outsourced services for both private and public sectors.

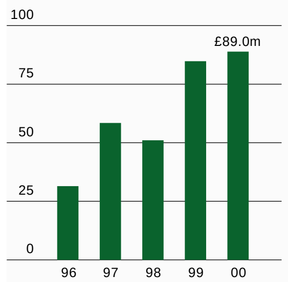
Caxton Facilities Management
FM Contract Services
Caxton Islington



Kier Residential page 24

High quality private housebuilding.

Bellwinch Homes
Twigden Homes
Kier Homes
Kier Land

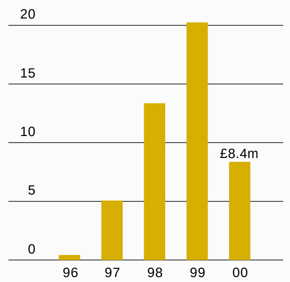


Kier Commercial page 29

Commercial property development.

Kier Ventures
Kier Property

Joint ventures
Kier Warth
Norwich Union/Kier Ventures



In 2000 the Kier Group has seen growth and margin improvement in construction and in residential development. With an eye to the future, it is developing its support services activities and building a stable of PFI project investments.

Contents

TURNOVER

£1,034.8m

INCREASE 7.5%

PROFIT BEFORE TAX

£17.7m

INCREASE 28.3%

EARNINGS PER SHARE

39.8p

INCREASE 30.1%

HIGHLIGHTS

- **Growth continues for eighth successive year**
- **'Construction' and 'Homes' both strongly positioned and improving**
- **Kier remains committed to building sector, where prospects are good**
- **'Support Services' and 'Project Investment' coming through for the future**

FINANCIAL SUMMARY	2000 £m	1999 £m	INCREASE %
TURNOVER	**1,034.8**	962.9	+ 7.5
RESULTS			
TOTAL OPERATING PROFIT	**15.6**	12.6	+ 23.8
PROFIT BEFORE TAX	**17.7**	13.8	+ 28.3
EARNINGS PER SHARE (BASIC)	**39.8p**	30.6p	+ 30.1
DIVIDEND PER SHARE	**10.7p**	9.3p	+ 15.1

Executive directors

1


2


3


4


5


1 Colin Busby
Aged 56, has been chairman and chief executive since leading the employee buyout in 1992. His service with the Group began in 1969 and he held senior appointments in the international and UK construction divisions between 1978 and 1992. He is chairman of the Nomination Committee.

2 Duncan Brand
Aged 59, joined the Group in 1970 and has held both financial and general management positions in a number of the Group's divisions. He has been finance director and company secretary since 1992.

3 David Homer
Aged 54, has extensive experience of the residential development sector, including eight years as a regional managing director with a major national housebuilder. He joined Kier Group in 1994 as managing director of Twigden Homes, and was appointed to the Board in 1996 with responsibility for residential development.

4 Martin Scarth
Aged 57, joined the Group in 1966 and has held management positions in a number of the regional construction offices. A divisional director since 1988, he has since the buyout been the director responsible for regional contracting and support services.

5 John Dodds
Aged 55, has been with the Group since 1970, working much of the time overseas, particularly in Africa and Hong Kong. He also spent a period controlling major civil engineering in the UK and since the buyout has been the director responsible for major projects, mining and international contracting.

Independent non-executive directors

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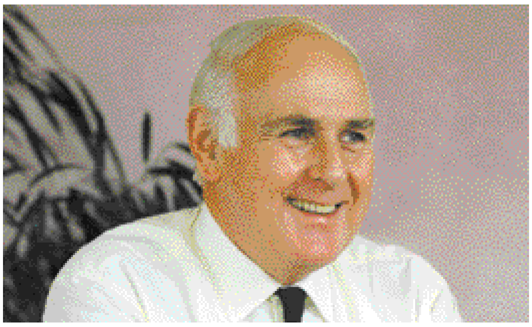

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6 Peter Berry
Aged 56, is executive chairman of The Crown Agents for Oversea Governments and Administrations Limited. He is also chairman of Martin Currie Portfolio Investment Trust plc and a non-executive director of Henderson TR Pacific Investment Trust PLC. He was appointed to the Board in 1997 and is chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. He will become the senior independent director following Graham Corbett's retirement from the Board at the forthcoming AGM.

7 Graham Corbett
Aged 65, is chairman of the Postal Services Commission and was previously a deputy chairman of the Competition Commission. He was chief financial officer of Eurotunnel until retirement in 1996. He is the senior independent director, having been a member of the Board since 1996 and is chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. Following his appointment to the Postal Services Commission, he has decided not to seek re-election to the Board at the forthcoming AGM.

8 Peter Warry
Aged 51, is chairman of Victrex PLC and a non-executive director of BSS Group PLC and of the Office of the Rail Regulator. Previously he was an executive director of British Energy PLC and chief executive of its English generating company. He was appointed to the Board in June 1998 and is a member of the Audit, Nomination and Remuneration Committees.

Chairman's statement

'Building the Business' is the theme of my Report to Shareholders this year as our growth in profits and earnings continues for the eighth consecutive year. Turnover has now passed the billion pound mark and earnings per share at 39.8p have grown by 30.1% this year, and have averaged increases of 25.6% pa over the four years we have been listed on the London Stock Exchange. In both our business segments, Construction & Services and Homes & Property, operating profits and operating margins have each increased, indicating that our businesses are improving in quality as well as in quantity.

We continue to seek further improvements and are developing our support services and project investment sectors so that these too will become more significant contributors to future profit growth, to which we are strongly committed.

Year's results

Total turnover at £1,034.8m increased by 7.5% (1999: £962.9m), with total operating profit (including our share of joint ventures) up by 23.8% at £15.6m (1999: £12.6m).

After crediting profit from disposal of investments of £0.5m (1999: Nil) and net income from net cash balances and investments of £1.6m (1999: £1.2m), profit before taxation was £17.7m, an increase of 28.3% (1999: £13.8m), and after taxation was £13.1m, an increase of 32.3% (1999: £9.9m).

Profit before tax and earnings per share adjusted to exclude profit on disposal of investments were £17.2m and 38.3p respectively, increases of 24.6% and 25.2% over 1999.

We are proposing a final dividend on the Ordinary Shares of 7.3p (1999: 6.3p) making 10.7p for the year, an increase of 15.1% on 1999's 9.3p. The dividend will be paid on 12 December to those on the register on 6 October and there will be a scrip alternative.

Strong cash flow supported further increased investment in land and development work-in-progress, with balance sheet liquidity of around £40m (1999: £42m), and total net assets increased by 32.8% to £44.5m (1999: £33.5m).

Business strategy

Building is our business, and will remain so. All our operations are related closely to our position in the building sector. In contracting, our share of the UK market continues to grow, and our evident commitment to the sector is swelling the proportion of negotiated work in our order book. In residential development, we are building a significant regional presence in our selected markets. In commercial development and in PFI project investment, we are creating a series of important investment assets. In property-related support services, we have established a platform for future growth.

Many of our competitors are de-emphasising their construction activities and (in some cases) migrating to other stock market sectors. In our view, this underestimates the opportunities now in construction. It is a commonplace that there has been massive under-investment in the infrastructure and built environment of Britain for many years: structural changes in the economy and public finances now present the real prospect of redressing the years of neglect. We believe the prospects for construction in the UK are very strong in the period ahead and the cyclical influences that bedevilled the industry in earlier decades are greatly reduced. Kier's trading record shows that strong and consistent profit-growth is possible in the sector, and the trends that have underpinned our recent record still have a long way to go. Kier's history and Kier's skills-base place us firmly in the construction sector, where we have a strengthening franchise. Building is our business.

Broadening the earnings base of our Construction segment by expanding our support services activity is however very much a strategic objective, and one where progress has been significant this year. In recognition we have renamed this segment 'Construction & Services'. We have started to make

A selection of the year's projects


Kier Regional


Kier National

Kier Regional


We believe the prospects for construction in the UK are **very strong** in the period ahead.

inroads into the FM services side of PFI through our Caxton subsidiary and into the local authority ‘best value’ market through our selection by the London Borough of Islington for the externalisation of their building services activity. These long term services contracts (between them valued at £285m) will provide core workload to our services operation for many years to come as we continue to build this activity towards critical mass, when it will be separately reported as a third segment in our business operations.

Project investment under PFI is another strategic activity which has not yet shown up in our results (other than as a significant addition to central costs), but which we are pursuing nonetheless for the long term benefit. Returns on this investment will start in the second half of our 2001 financial year, with the commissioning of the new hospital at Hairmyres, East Kilbride. New projects where investment has been committed this year comprise a hospital in South Wales and a library in Southern England.

Meanwhile, the financial strategy, whereby the growing cash balances generated by the Construction & Services segment are invested in Homes & Property, funding its expansion, a strategy which has underpinned the Kier story since 1993, continues to deliver remarkable returns on shareholders’ funds, once again in excess of 40% (pre-tax). Investment in Homes & Property has increased this year to £100m (1999: £76m), taking our residential land-bank to over 2000 plots.

Construction & Services

We have been working to improve construction operating margins, and the result from this segment demonstrates the success we are having, with operating profit up 62.5% at £6.5m (1999: £4.0m) on turnover up 9.3% at £937.4m (1999: £857.6m). Further margin improvement is an important objective for us.

Kier Regional’s network of local construction businesses raised turnover to £598m, up 14.6% with strong order intake particularly evident in central and northern England and parts of the South East. Most of this growth has come in the second half year, and with an order book carried forward of £307m, 38.3% above last year, we expect further growth in the new year. We attribute this increasing market penetration to our evident commitment to the industry and to the quality of service we are giving our clients.

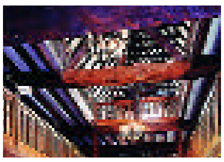
In Kier National, our major projects division, the same trends can be seen in the building company, Kier Build, with a 26.1% turnover advance to £103m, while the civil engineering, mining and rail company, Kier Construction, had a quieter year, with turnover down 21.6% at £116m. Its various markets were subject to a number of disruptive influences this year, but we expect demand in civil engineering to recover as the Government’s long-term transport proposals take shape.

The international company is starting to respond to management changes instituted twelve months ago, with its full year operating losses reduced from last year and from those reported at the interim stage of

Kier Residential

Kier Regional

Kier Commercial



Kier Regional

this year. Workload is improving, particularly in Hong Kong and the Caribbean, and it is making progress in difficult circumstances in India. Every effort is being made to return this business to profitability: as I said last year, an overseas presence is an important part of our strategy to remain at the forefront of the UK industry, but it must earn its keep.

The focusing of our facilities management and other support services activities, and their expansion, has gathered momentum. During the year, turnover of our existing units grew by 13.4% to £37m, and significant long-term contracts were awarded which will impact in the future. In May we announced the signing of a $27\frac{1}{2}$ year contract for non-clinical support services by Caxton Facilities Management at the new Neath and Port Talbot Hospital in South Wales: this was followed in June by our appointment as preferred bidder by the London Borough of Islington to undertake a programme of building and housing maintenance in partnership over ten years. A new company is being formed, Caxton Islington Ltd, to carry this out. Our support services order book, including these projects, now stands at over £350m.

Homes & Property

Improved operating margins have also been achieved in Kier Residential, with further useful profits from Kier Ventures, our commercial property development company. The overall operating profit of £13.2m plus investment income of £0.3m compares to 1999's profit of £12.0m, a 12.5% increase. Additionally the investment sale profit of £0.5m in this year's result has also been earned for us by Kier Ventures.

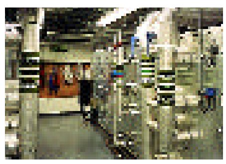
Kier Residential experienced strong sales demand in both its English and its Scottish regions, continuing the drive up-market we started last year. Average selling price rose to £142,300 (1999: £130,400) on a lesser number of completions (573 no, 1999: 610 no), operating margin improved to 13.1% (1999: 11.9%), and a greatly enhanced forward sales position was carried into the new financial year (up 52% on 1999), along with a land-bank of just over 2000 plots owned, paid for and with planning consent. We are continuing to build volume at our Scottish subsidiary, which was profitable this year, its second year of trading. Demand in our South East England markets has continued throughout the summer, with our forward sales position currently well ahead of last year. To us, this is evidence that although some of the heat has come out at the upper end of this market, transaction levels generally remain active and will sustain our growth.

Kier Ventures made exciting progress with two joint venture developments, with construction now under way on the 320,000 sq ft distribution centre pre-let to GDA-Hotpoint in Northamptonshire, and terms agreed for a pre-let to J Sainsbury (subject to planning) for a 700,000 sq ft distribution centre at Waltham Point on the M25. Two investments will be created from these developments, which will be very attractive to the property institutions. Our property team has a number of complex brownfield opportunities where the Group's construction, development and facilities service skills can be harnessed, as has been the case at Waltham Point.

The skills and motivation of Kier people are crucial to our success.

Kier Residential

Kier Regional



Kier Regional

Kier Support Services

Project Investment

As in property, it is the creation of attractive long-term investments by harnessing the Group's operating skills that is the core objective of Kier Project Investment, our PFI and PPP promotions subsidiary. In the PFI health sector, we have two fine examples in course of creation, in the district general hospitals at East Kilbride, Scotland and Baglan, South Wales. East Kilbride will become operational next spring, at least four months earlier than originally programmed, due to time saved in the build phase. Baglan started building earlier this year and will become operational in 2002. Kier owns half of the East Kilbride project and one quarter of the Baglan project. We shall add to this portfolio, with a selection of healthcare, education and other opportunities now before us.

Kier People

The skills and motivation of Kier people is crucial to our success and the board places a high priority on maximising both qualities. Many staff at all levels are, of course, shareholders, a reminder of our history as an employee buyout of the early 1990s. We need no convincing that share ownership is a strong motivating influence, particularly in a business where the team effort in delivering complex projects on time is of such critical importance. We are therefore very interested in the new all-employee share ownership schemes coming on stream and intend to make use of them. On the skills front, we continue to look for the brightest graduates each year and our training department is continually reviewing its range of internal courses. We have had a tremendous response from our staff this year in managing the growth that so many parts of the Group are experiencing, and I thank one and all.

I should also like to thank Graham Corbett for the contribution he has made to our affairs as a non-executive director since joining the Board in 1996, shortly before our flotation. He has recently been appointed chairman of The Postal Services Commission and, understandably, needs to reduce his other commitments. He is therefore retiring from the Board at the forthcoming AGM.

Prospects

I remain of the view that the UK market is more promising now for both construction contracting and residential development than at any time in the past decade. The extreme cyclicality of the past has levelled out. Housing volume and price pressures will continue to fluctuate to a degree, but will maintain an active level of trade. When I see the forward sales position we have established in our chosen regional housing markets and couple that with the very strong order books we have in all our UK contracting companies, I have great confidence that the established major divisions of the Group will continue to deliver improving returns.

When to this is added the burgeoning activities of our support services companies, whose markets are also fast-growing, the opportunities we are working on in commercial property and the growing maturity of our project investments, it is clear to me that we will continue 'Building the Business' for some years yet and shareholders will not be disappointed with the results.

C R W Busby
Chairman

Kier Residential

Kier National

Kier Regional

Financial review

Turnover, orders and land-bank

The Group turnover, including share of joint ventures, increased by 7.5% to £1,034.8m.

The Construction & Services segment increased by 9.3% to £937.4m. Within Construction & Services, Kier Regional at £597.6m was up by 14.6%, Kier National at £303.3m was at the same level as 1999, and Kier Support Services at £36.5m increased by 13.4%. In all parts of the segment, the increases were by organic growth and not acquisition related. Within Kier Regional, the trading name, some staff and the right to novate contracts in progress of the long-established building firm, James Longley & Sons of Crawley, Sussex, were acquired from the Receiver, but the impact on turnover in the year was not material. Order inflow was particularly strong in the second half of the year in the construction divisions and confirmed orders in hand stood at £658m at 30 June compared to £569m the year before. We therefore expect organic growth of these divisions to continue into 2001 at rates comparable to 2000. Kier Support Services has also increased its order book with the inclusion of long term orders for the FM content of PFI projects and the ten-year partnership with London Borough of Islington for housing-stock maintenance, and this now stands at £351m, bringing total orders for Construction & Services to just over one billion pounds.

Turnover of Homes & Property fell from £105.2m in 1999 to £97.4m, but this does not represent a real fall in activity in either the residential or commercial development businesses, rather the way transactions in the commercial arm are reported. This year's commercial development turnover of £8.4m compares to last year's £20.3m, but commercial total profit is up.

Kier Residential's turnover of £89m was 4.8% up on 1999, representing 573 houses sold at an average value of £142,300 and land sales of £7.4m (1999: 610 houses sold at £130,400 and land sales £5.5m). Land buying was successful in the three regions in which we trade, with 2,030 plots in stock at 30 June 2000 (1999: 1,955 plots), at an average price of £34,900, just under 25% of the year's average selling price. From this base, sales expansion in 2001 is anticipated, as is confirmed by the forward orders at the end of August 2000 which were 24.4% above 1999's equivalent.

Operating profit, margins and returns on capital

Group operating profit, including share of joint ventures, totalled £15.6m (1999: £12.6m) an increase of 23.8%.

In Construction & Services, a 62.5% increase was achieved at £6.5m. The margin on turnover of 0.69% represents a palpable increase on 1999's 0.47% and is further progress towards our immediate target of 1.0% for this segment. This result is stated after an operating loss of £1.2m in overseas construction, a lower loss than in 1999 but still a drag on the Group. Margins on UK construction improved from 0.71% to 0.91%.

Homes & Property contributed operating profit of £13.2m (1999: £12.0m), an increase of 10%. Commercial property returns this year of £0.3m (investment income) and £0.5m (profit on sale of investment) are not classed as 'operating profit', but if added to operating profit, would increase this year's score to £14.0m, an improvement of 16.7% over last year and a truer picture of this segment's performance this year. In Kier Residential, operating margin improved from 11.9% to 13.1% and in commercial property from 9.3% to 17.9%. Return on average capital employed was 14.2% (1999: 15.8%) in Kier Residential.

Centre costs of £4.1m (1999: £3.4m) comprised net costs of PFI and 'best value' promotion activities £0.6m (1999: £1.0m), a provision for the estimated cost of the Long Term Incentive Plans introduced following the Resolution at last year's AGM of £0.7m (1999: Nil) and corporate overheads of £2.8m (1999: £2.4m).

Other net income

The Group's commercial development activities have included since 1995 a 10% equity interest in the development of Oxford Business Park being led by Arlington Securities plc, a long-standing client of Kier Regional. During the year, this interest was sold to Arlington Securities, realising a profit of £0.5m. Prior to the sale, a dividend of £0.3m was received on this investment, representing our share of development profits on completed phases of the Park.

Net interest receivable, including share of joint ventures, totalled £1.3m (1999: £1.2m). Average liquid balances were marginally above 1999 over the year as a whole at around £22m (1999: £20m) while average base rates were 0.7% lower at 5.6%, resulting in similar net interest earnings. Higher balances were carried in Construction & Services than during 1999, generating the same interest receivable of £7.0m as for

We continue to generate cash from operations, even after a further £33.8m investment in stocks.

1999 despite the lower interest rates. Homes & Property ran at higher levels of investment, incurring interest charges of £3.5m (1999: £3.0m), and the central finance charge was £2.2m (1999: £2.8m).

Profit before tax, taxation and profit after tax

Profit before tax at £17.7m was 28.3% ahead of 1999's £13.8m. If profit before tax is adjusted to exclude the profit on sale of fixed asset investments (as required by the Institute of Investment Management and Research's Statement of Investment Practice No 1 in order to calculate 'Headline Earnings') the resulting profit before tax of £17.2m is 24.6% ahead of 1999.

The tax charge for the year of £4.6m represents an effective rate of 26.0% as compared to 1999's 28.3% and the full UK Corporation Tax rate of 30%. The tax charge has benefited from brought forward trading losses in subsidiaries acquired in 1998 and from brought forward capital losses. We expect the effective tax rate to remain below the full UK Corporation Tax rate for a number of years, with approximately £8m of trading losses available for offset against future periods. Profit after taxation at £13.1m is 32.3% above 1999's £9.9m.

Dividend

The proposed final dividend of 7.3p (1999: 6.3p) makes 10.7p (1999: 9.3p) for the year, an increase of 15.1%. The dividend is 3.7 times covered by current undiluted earnings. This is the third year in a row the dividend has increased by 15% or more.

Shareholders' funds and share capital

Retained profits of £9.6m, together with the proceeds of issue of 773,000 new shares (2.3% of all shares in issue) of £1.4m, have increased shareholders' funds by 32.8% to £44.5m (1999: £33.5m). The pre-tax return on average shareholders' funds was 45.4% and has now exceeded 40% for three years in a row. Of the new shares, 75,000 were issued under the scrip alternative to last year's final dividend and the remainder to satisfy options maturing under the 1997 Sharesave scheme. No shares were issued under the scrip alternative to the interim dividend in May this year because of market movements in the share price outside the permitted range.

Earnings per share

Basic earnings per share (undiluted) of 39.8p represents a 30.1% increase on 1999 and takes compound growth since Kier Group's flotation in 1996 to over 25% pa.

Earnings per share adjusted to exclude profit on sale of fixed asset investments at 38.3p is 25.2% above 1999.

Cash flow, facilities and foreign currency exposures

Net cash outflow in the year at £1.8m (1999: £7.1m) arose after an inflow from operating activities of £8.1m (1999: £18.8m). We continue to generate cash from operations, even after a further £33.8m investment in stocks, with land and work in progress held for development now valued at £118.8m (1999: £96.0m). Capital expenditure was at a lower level this year at £6.6m (1999: £12.3m). Capital expenditure comprises chiefly construction plant, the requirement for which is dictated by contracts obtained.

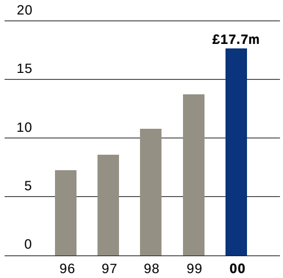
The Group's liquid position is affected by both annual and monthly seasonal cycles and by contract cycles, particularly in connection with the larger contracts undertaken within Kier National. Where these contracts are undertaken jointly with other contractors ('joint arrangements') the related cash balances are held in joint bank accounts and our proportion of the balance only is included in our consolidated accounts. This element of the overall cash balance increased during the year from £5.2m to £22.8m, masking a decrease in the liquid balances fully under our control. This planned reduction in balances reflects the increased investment in Homes & Property, where net operating assets have increased from £76.9m to £100.2m.

To deal with cyclical cash movements the Group maintains a range of bank facilities (on a stand-by uncommitted basis) which were increased during the year from £25m to £30m. Occasional drawings were made against these facilities.

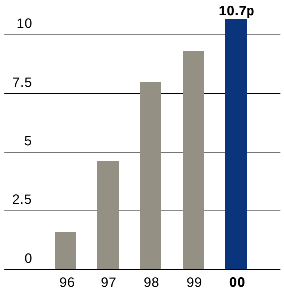
There are foreign currency risks arising from overseas operations. The Group has a number of overseas branches and subsidiaries operating in a variety of countries and currencies. Currency exposure to overseas assets is hedged through inter-company balances and borrowings such that assets denominated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

D V Brand
Finance Director

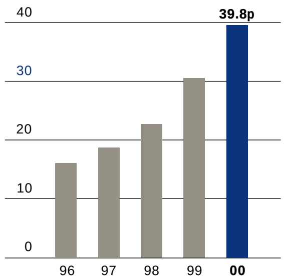
Profit before tax (£m)



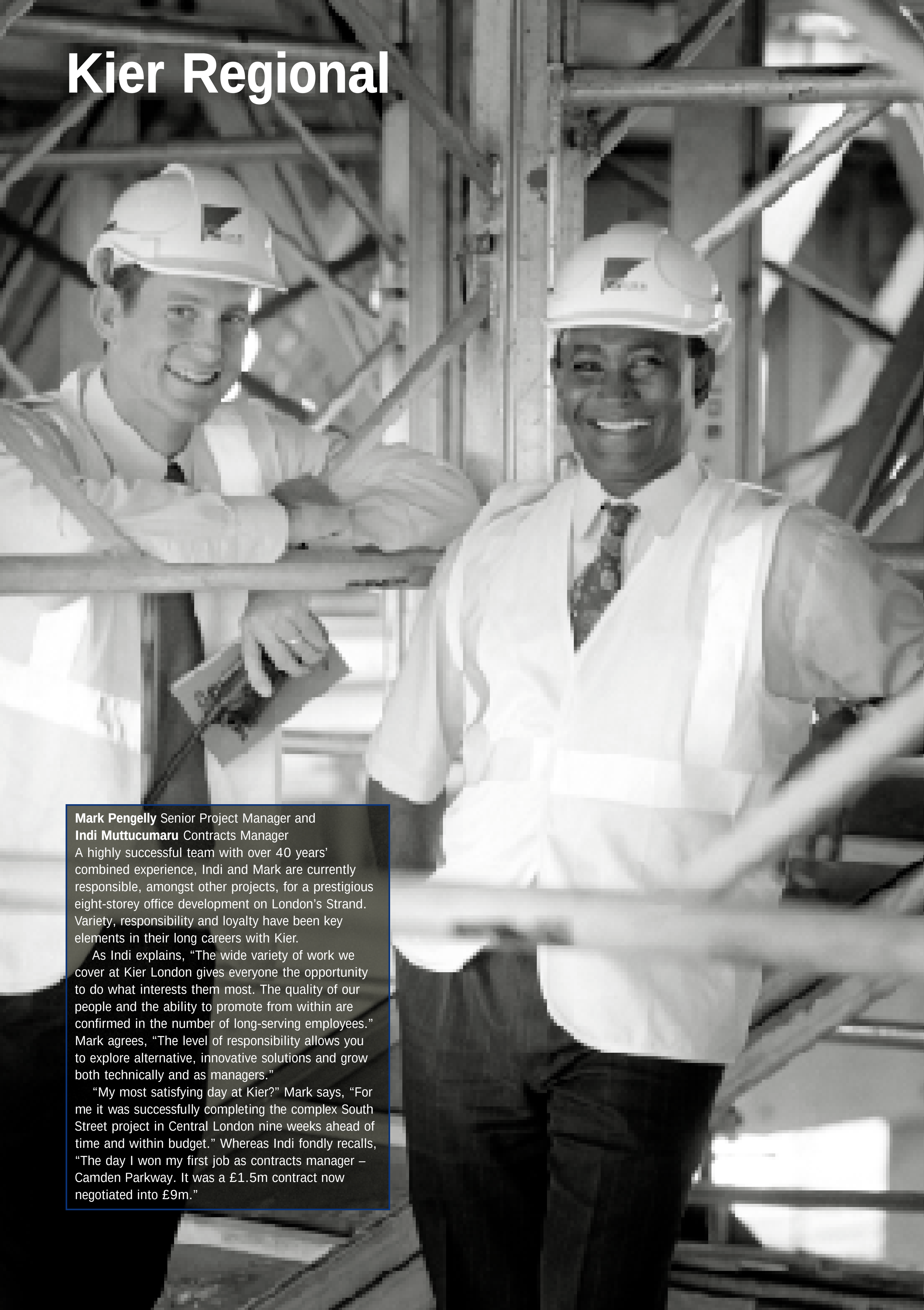
Dividend per share (p)



Earnings per share (p)



Kier Regional



Mark Pengelly Senior Project Manager and
Indi Muttucumaru Contracts Manager

A highly successful team with over 40 years' combined experience, Indi and Mark are currently responsible, amongst other projects, for a prestigious eight-storey office development on London's Strand. Variety, responsibility and loyalty have been key elements in their long careers with Kier.

As Indi explains, "The wide variety of work we cover at Kier London gives everyone the opportunity to do what interests them most. The quality of our people and the ability to promote from within are confirmed in the number of long-serving employees." Mark agrees, "The level of responsibility allows you to explore alternative, innovative solutions and grow both technically and as managers."

"My most satisfying day at Kier?" Mark says, "For me it was successfully completing the complex South Street project in Central London nine weeks ahead of time and within budget." Whereas Indi fondly recalls, "The day I won my first job as contracts manager – Camden Parkway. It was a £1.5m contract now negotiated into £9m."

TURNOVER

£597.6m

This year saw a further increase, to 42%, in the proportion of negotiated turnover, with average contract size up to £2.8m.

CLOCKWISE FROM TOP
Wallis undertook the repair and restoration of the south east quarter at Ightham Mote for the National Trust.

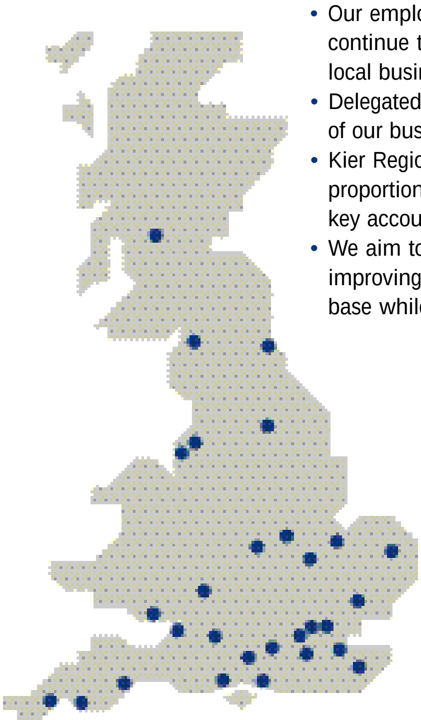
Internal refurbishment and structural remodelling of offices in Bishopsgate for Benfield Greig by Wallis.

High quality commercial development in Central Milton Keynes for Scottish Mutual Portfolio Managers, by Marriott.

Kier Regional continued

TOP
Extension, refurbishment and fit out of Waitrose Store in Buckhurst Hill by Kier London.

ABOVE
Demolition, design and reconstruction of the Shaftesbury Avenue façade of the Trocadero by Kier London.



Key points of the year's performance

- Turnover goes on growing, up 14.6% to £598m
- Surge of new orders in second half of year
- Average size of contract increased to £2.8m
- Proportion of negotiated turnover again grows, now over 42% of total
- Design and build grows to over 43% of volume
- Now 88% of awards from private sector

Key factors creating confidence and margin growth

- Our comprehensive UK coverage from 28 offices is attracting national clients in greater numbers
- Provincial offices at Norwich, Nottingham, Carlisle, Durham, Newport, Newbury, Truro and Maidstone now contribute significantly
- Businesses near to major conurbations are performing strongly – French Kier Anglia, Marriott Construction, Moss Construction, Kier Western
- Our people are focused on client care and risk management
- Our strong cash flow aids business confidence

Keys to our success

- Central to our success is the building of our 'key client' accounts, our national clients – partnering and repeat business with MEPC, Hilton and Homebase has added to our successful long-term relationships
- Arlington, Countryside, Pillar, Sainsbury and Tesco have placed greater volumes with Kier Regional this year
- Organic growth in the year has also been achieved through our continuing commitment to competitive tendering

Key objectives for the year ahead

- Our employees are our core asset, and we will continue to train and develop them within our local businesses.
- Delegated responsibility remains the key aspect of our business ethos
- Kier Regional aims to increase the negotiated proportion of the business further through the key account process
- We aim to increase operating margins through improving the risk profile and managing the cost base while maintaining cash flow

ROUND THE OPERATIONS

Kier London
Loughton, Tottenham

The completion of the £8.5m office project for City and West End Developments and the extending of Tesco's Watford store into a superstore were notable successes. Following on from a £6m contract for a multi-storey academic facility at Imperial College, a £2m fit-out has been negotiated. Work is expected to commence shortly on a £22m project for Sainsbury on the Group's Waltham Park development.

Kier Northern
Boston Spa, Durham, Carlisle

This business has been exceptionally busy with a £14m project for Morrison Supermarkets in Newcastle and the completion of a major office block for Teesland adjacent to Leeds Station. Carlisle is trading well with a two year project for Whitehaven Renaissance Harbourside together with a number of negotiated projects for Degremont at Barrow and Workington. Durham has several smaller range contracts ongoing, including Craghead Village Hall and Hexham School.

Kier Scotland
Glasgow

The major project in Scotland is UGC's 18-screen high-rise cinema in the centre of Glasgow. In addition, a range of mid-value contracts has been won, including a housing regeneration scheme in Edinburgh for Castle Rock Housing Association and Lothian Homes, valued at £2.7m, and a fast-track refurbishment contract for the Hilton Hotel Group.

LEFT
A seven storey, £12m design & build office development by Kier Northern in the centre of Leeds.

ABOVE
A new Tesco store in Havant designed & built by Henry Jones.

BELOW
Oakfields Primary School, Wickford, built by French Kier Anglia for Essex County Council.

RIGHT
A new world-renowned nursery in Norwich for Blooms of Bressingham by French Kier Anglia.

Kier Southern

Maple Cross, Havant (Henry Jones), Southampton (Brazier Construction, Kier Partnership)

Commercial and retail projects have featured strongly in a record volume. Henry Jones is now upgrading the mental health facilities at Chichester in a £16m contract for a PFI scheme by Rotch Property Group. Brazier Construction has signed a £10m contract to relocate facilities for Weymouth College in a joint project with Bellwinch Homes. As it starts its third year as a member of the Group, Kier Partnership is consolidating its position with a portfolio of social housing projects. Maple Cross continues to partner Countryside on a number of projects. Contract negotiations with Welbeck Land have been completed for a fine office development at Rickmansworth.

Organic growth in the year has also been achieved through our continuing commitment to competitive tendering.

Kier Western

Bristol, Plymouth, Truro, Exeter, Newport

Key client, Sainsbury, has placed orders with us for a number of retail and property developments, providing workload at each of our offices. Larger contracts in both Newport and Truro have led to a balanced workload in these areas. A particular success was the completion of the Avon Rubber 'Project Atlas' in collaboration with Moss Construction. As the £9.5m fast track retail park for MEPC at Atlantic Village, Bideford progressed, a further £2.6m contract for leisure facilities was negotiated. Rockeagle's call centre for Orange has completed to a challenging deadline.

French Kier Anglia

Wisbech, Witham, Norwich

Defence-related work dominates the activity at Wisbech which also has good opportunities in the commercial and industrial sectors. Norwich has experienced a record volume with a broad range of new clients. The £2.2m Blooms of Bressingham contract is a pleasing development. Witham completed the access road from the M25 to the Group's Waltham Park development, and has successfully progressed three schemes for Countryside Commercial in and around Chelmsford. The £1.2m Oakfields Primary School, a demonstration project under the Egan initiative, has completed well.

IEI – Building Services Engineers
Basingstoke
A programme of design and install mechanical and electrical projects with regular clients including Arlington and Slough Estates has formed the base workload. Design work already in hand on further opportunities will lead to an expanded turnover in 2001. The service and maintenance business continues to be developed to provide a whole-of-life service for IEI's regular clients.

Marriott Construction
Rushden, Nottingham
All parts of the business recorded record turnover with Nottingham outstanding. Rushden expanded its operations with a significantly increased client base and with generally larger contracts. A new £13m office project has recently started in Luton for AstraZeneca. Pillar continues as a key client, whilst the completion of the Charles Schwab office in Milton Keynes and the Rushden & Diamonds Sports and Exhibition Centre are excellent examples of Marriott Construction's work.

Our employees are our core asset, and we will continue to **train and develop** them within our local businesses.

OPPOSITE TOP
A new 50,000 sq ft development for Brixton Estates. IEI was responsible for the mechanical and electrical fit out of this air conditioned building which has now been let to ICL.

OPPOSITE BELOW
A new distribution centre in Leicestershire for Disney by Marriott.

ABOVE LEFT
Retail refurbishment in Banbury by Moss Construction.

ABOVE RIGHT
Refurbishment work at Aylesford Priory in Maidstone by Wallis.

Moss Construction

Cheltenham, Birmingham, Newbury

Design and build contracts featured strongly, a fine example being the £5.4m office for Electrocomponents at Arlington's Oxford Business Park. A quality £2.5m refurbishment of the existing mall at the Castle Quay Shopping Centre at Banbury has added value to our client's portfolio. Newbury has just handed over three buildings for MEPC at Milton Park and has undertaken three contracts for Waitrose. Hotel work has featured in Birmingham's workload, with the new hotel at Salvage Wharf being a high profile contract. A number of LivingWell leisure centres are in production.

Moss Northern

Liverpool, Manchester

The growth of negotiated work with established clients is a feature of this business. Work on the Mersey Retail Park for Pillar and a sequence of follow-on contracts for Morrison Supermarkets have been significant for Liverpool. The National Wildflower Centre at £1.4m is now nearing completion. Manchester's £6.6m project to refurbish the Museum of Science and Industry is nearing a successful conclusion.

Wallis

Bromley, Maidstone, Crawley (Longley)

Work on heritage buildings and fit-outs are two specialities of this business. The London fit-out team, Wallis Interiors, completed a £5.2m project of advanced design for Benfield Greig at 55 Bishopsgate. Wallis's strengths in restoration and repair work were illustrated by projects at Warrior Square Railway Station and the National Trust's 14th Century Ightham Mote. Maidstone has undertaken a number of projects for Tesco with several consecutive projects ongoing. Tesco's new 'Concept' stores have added a further challenge to our innovative teams. The new Longley division based in Crawley will improve our coverage in Surrey and Sussex.

Kier National

Louisa Finlay Project Manager

Louisa – a project manager with Kier Build – has been with the Group for 13 years. In addition to a range of exciting public projects such as Mooltan Barracks, Tidworth Garrison and Rye House Power Station, she was recently involved in what she remembers as the most stimulating assignment of her career to date.

"Firstly as design manager, and then as project manager with Kier Build, I was responsible for all the design and construction elements of the new Wellcome Wing at the Science Museum. It proved to be one of the most inspiring experiences of my professional life so far, especially as many of the ideas and techniques employed were innovative and relatively untried. The most gratifying moment came when the new wing was opened by the Queen in June this year. It was a fitting conclusion to the team's commitment and effort."

TURNOVER

£303.3m

In a buoyant UK building market a number of new contracts have been awarded leading to an increase in market share.

CLOCKWISE FROM TOP
Surface preparation of concrete dock wall by Kier Construction for a marine sector client.

Interior of the Wellcome Wing at the Science Museum, by Kier Build.

Gantry crane installation by Kier Construction for an industrial sector client.

Overview

This year has been a busy and varied one for Kier National, the major projects and international division for the Group. The UK building projects have progressed well and in a buoyant market a number of new contracts have been awarded leading to an increase in market share. The civil engineering market remained quiet during most of the year with the major awards being principally in the rail sector, although recent opportunities in other transport markets have emerged. The international business has commenced its return to profitability with losses reported during the first half of the year being partially reversed in the second half of the year.

The overall philosophy of the division remains one of vigilant management of risk. Much of this is achieved by developing a clear understanding of our clients' needs and matching delivery to client expectations. Two stage negotiations and open book contracts have enabled us to make significant progress in achieving these aims.

Kier National's markets

Kier National operates in a number of very distinct markets: major UK building, UK civil engineering, mining and plant as well as international contracting.

The UK commercial property market, particularly in and around London, remains buoyant with no sign of the slow down in growth others have predicted. Retail and leisure too remains active. The Health sector continues to attract a good degree of work, particularly for PFI contracts. Kier Build has seen success in the first two waves of PFI healthcare opportunities and hopes that the third, which is imminent, will be equally fruitful.

There are a number of reasons leading us to expect a recovery in our civil engineering activities,

- more investment in road construction and rail infrastructure following the Comprehensive Spending Review
- the ending of the moratorium on large gas-fired power stations
- the growing demand for small-scale power generation units
- spending on pollution controls in the water industry and emission controls in power and heavy industry,

all fields in which we are active.

Internationally, the current focus is on complex civil engineering projects in Hong Kong (on the rail infrastructure) and in India (marine work for power stations) where Kier's skills are particularly appropriate. We are avoiding the general contract market in Hong Kong, where we have no special edge, and where problems were encountered last year which we believe have now been worked through. Our business in the Caribbean and Central America is more heavily focused now on lower risk plant development and renewal work for Alcoa and its associates and here again troublesome contracts in other sectors have been worked out. New markets are being explored with our entry into Romania on a joint venture housing and water supply project. We retain civil engineering capability in the UAE, with that region a probable beneficiary of oil price increases.

This year has been a busy and varied one for Kier National.

LEFT
5000t reinforced concrete floating caisson at Devonport, by Kier Construction.

CLOCKWISE FROM ABOVE
Kier Rail renewed Brighton Station's huge glass roof.

Preparation of coal at Gasswater by Kier Mining.

Some of the Kier Plant fleet at the company's Woolwich Depot.

Shoreham 400MW CCGT power station, West Sussex by Kier Construction.

ROUND THE OPERATIONS

Kier Construction

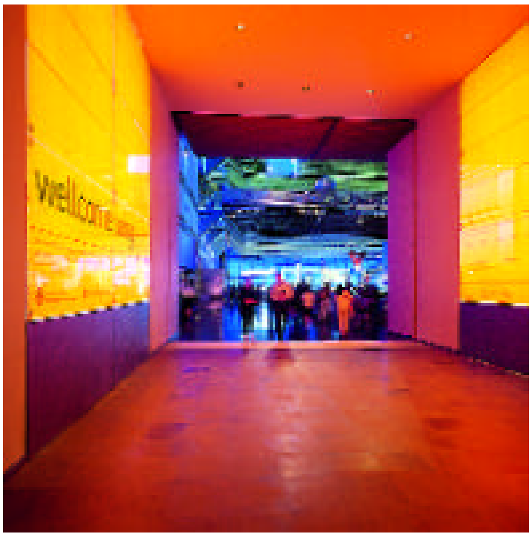
Civil Engineering, Rail, Mining & Plant

Kier Construction's civil engineering division is now well advanced on the power stations awarded last year at Damhead Creek and Shoreham. At Devonport the long association with Devonport Management Limited continues with additional works being awarded. A contract has been awarded on the Channel Tunnel Rail Link, with further opportunities being pursued on this major project. Other contract awards include work on wastewater treatment in Cumbria and facilities at Scottish Power's Beinn An Tuirc Windfarm.

Our rail division has carried out £120m of work on Railtrack's Station Regeneration Programme in Southern Zone over the past three years. This has now ended, but has been followed by a contract for the roof repairs at Victoria Station. Further rail awards include a £22m contract for the refurbishment of six depots to service the new Virgin tilting trains for West Coast Train Care.

Our mining division's contract at Gasswater, for Scottish Coal, continued to make progress during the year with 725,000 tonnes of coal extracted to the end of June 2000. Overseas the joint venture in Jordan, operating phosphate mines for the Jordan Phosphate Mining Company, has progressed well and further works have been secured at Eshidiya Mine for the same client.

Kier Plant continued to expand, providing plant and equipment to Kier's UK businesses and external customers. Its tower crane fleet now numbers 54, one of the UK's leading hire fleets in that sector.



Kier Build

Major Building Projects

Kier Build has had a year of record activity. It completed four significant projects, Procession House on Ludgate Hill in the City of London, a £22m commercial development for Heron; the design and construction of a new £19m laboratory and energy centre for MAFF; the £44m major rationalisation of Porton Down for DERA and the £22m Wellcome Wing, a design and build extension to the Science Museum at Kensington. The Wellcome Wing was identified for its outstanding innovation, quality in construction and design and selected as the Greater London winner in the Celebrating Construction Achievements Awards 2000. It was officially opened by Her Majesty the Queen in June 2000.

Last year we reported the commencement of Grenfell Island at Maidenhead for Castlemore (Maidenhead) Limited; the Paragon complex for TAG McLaren; and Northcliffe House, the reconstruction of the old Daily Mail building for Hilstone Corporation. These projects, together with Hairmyres Hospital in East Kilbride, which is due to complete early, have a combined contract value of £250m and continue to make good progress.

Kier Build's growth is set to continue with further contracts awarded in the year: Kinnaird House in London's West End, a £15m office block constructed with a retained façade for Schildvink BV; a £13m office block for Capital and Counties plc at Borehamwood for tenants One 2 One; and a £39m contract for the reconstruction of Mons Barracks, Aldershot for Defence Estates, which will be occupied on completion in 2002 by the First Battalion of The Welsh Guards.

LEFT
The Wellcome Wing at the Science Museum was identified for its outstanding innovation and quality in construction and design. It was selected as the Greater London winner in the Celebrating Construction Achievement Awards 2000.

ABOVE
£21m commercial and retail development straddling City Thameslink station built for Heron by Kier Build.

RIGHT
The Dabhol Jetty, India.

Kier Build's growth is set to continue with further contracts awarded in the year.

Kier International

Following the changes effected at the beginning of the financial year, the new management team in Kier International has settled down to a regime of selective tendering and effective risk management. The first half of the year saw further significant losses, largely in Hong Kong. However, following the second half, we are pleased to report a reduction in those losses.

Work continues on the highly technical joint venture contracts in Hong Kong for the two rail networks, MTRC and KCRC. In India our contracts for two power projects, one for Marubeni and the other in joint venture with Besix for Enron, continue to progress. The contract for Enron, a technically complex project, will present many engineering challenges in the course of its remaining two year construction programme.

The Caribbean has shown signs of increased work. New awards this year include two further cost-plus maintenance contracts for Alcoa through our strategic alliance with Commercial Contracting Company of San Antonio, Texas. We have also been awarded a contract for the construction of a number of flyovers in Kingston, Jamaica in joint venture with Mabey Johnson.

A contract for the Romanian government was awarded this year in joint venture with Mivan, the Northern Ireland-based contractor. The £85m project involves the provision of water to remote territories in Romania together with the construction of low cost housing.

Kier Support Services

Justin Noakes Project Manager

As a project manager with Caxton Facilities Management, Justin's career has embraced satisfied clients ranging from BAE Systems to Health and Safety Executive. He particularly revels in the constant involvement his job brings.

"I really enjoy being part of a team that works together to provide our clients with the service they expect – from the handyman on site through to the MD or chairman. My own role can mean being involved from the initial enquiry all the way through, hopefully, to tender award and contract stage. The success of our approach is illustrated by the fact that we have never lost a contract through poor performance in ten years, and many clients have been with us for seven years plus. And it promises to get even more exciting, as we are tendering for larger and more diverse contracts."

TURNOVER

£36.5m

We are seeking to add new **long-term business** streams.

Overview

The focus in Support Services has been to improve the quality of the two existing businesses, Caxton Facilities Management and FM Contract Services. We are also seeking to add new long-term business streams through the Group's participation in the major initiatives from Government that are transforming more and more of the old 'public sector', whether at central or local government levels. Kier has established a strong position in PFI projects over recent years and intends to do the same in the local authority 'Best Value' market by forging partnerships with local authorities for the externalisation of many services.

The Group's objective for the year ahead is to present to the growing outsourcing market a support services team which is robust and identifiable. We aim to continue to invest in the PFI market while focusing on the local authority outsourcing activity. This requires significant I.T. investment and a tailored partnering contract, which are both in development.

ROUND THE OPERATIONS

FM Contract Services

Senior management was strengthened during the year so that FM Contract Services can continue to build on its core repair and maintenance business whilst creating a platform to expand its facilities management operations.

Turnover increased in 2000 and the position for 2001 is encouraging with over 70% of target turnover already on the books. The business has a strong cash position providing a firm basis for sustained growth, linked to a commitment to long-term client partnerships.

Working with local authorities, and an increasing number of housing associations, the repair and maintenance business provides planned and responsive maintenance services including 24 hour emergency call out. In FM, our experience managing local authority technical service departments provides a platform for expansion into PFI outsourced services such as schools management.

Caxton Islington

This new company has been formed as a partnership undertaking with the London Borough of Islington to carry out housing maintenance, gas repairs and maintenance and the cleaning of municipal buildings, schools and colleges within the Borough. The agreement contains many innovative features to incorporate the requirements of the Government's 'Best Value' legislation. These include a fully integrated partnership agreement, which will be offered as a model for further contracts with other local authorities.

We were chosen by Islington after a rigorous selection process as their partner to deliver these services cost-effectively over ten years to agreed performance standards.

Around five hundred staff are due to transfer from local authority employment to the payroll of the new company.

Caxton Facilities Management

Caxton Facilities Management continued its impressive growth with turnover for the year increasing by 29.2%. From April 2000, the maintenance division of Kier Western, trading as Kier FM Services, was absorbed successfully into Caxton bringing with it some 110 employees and a forecast annual turnover of £7m. This addition to Caxton Facilities Management's business will widen the scope of its expertise and give access to a larger client base.

Turnover increased through additional services provided to, and additional sites serviced for, existing customers, with very high renewal rates on expiring contracts. Tendering for new major projects has also been intensive.

Long-term contracts to provide FM services to three PFI projects were secured in the year, namely the Neath/Port Talbot Local General Hospital for Bro Morgannwg NHS Trust, Pembroke Dock County Primary School for Pembrokeshire County Council and Bournemouth Central Library Project on behalf of Bournemouth Borough Council. Caxton Facilities Management is currently pursuing a number of other major PFI projects. These PFI awards now underpin the long-term growth of the company.

TOP
Members of the FMCSteam with some of the fleet.

ABOVE
Haywood House North, Cardiff, serviced by Caxton FM for Longford Business Centres.

Kier Residential

Brian Clarke Site Manager
The highlight to date of site manager Brian Clarke's 14-year career with Kier was official recognition of his – and our – exceptional standards of quality and workmanship.

"Winning the first NHBC quality award, not to mention the second and third, marked a considerable achievement. It's the industry's own reward for site management, and the trade's highest quality accolade. But it's what people expect from an established company like Twigden Homes, with a high degree of experience and expertise in every field. That's well illustrated by the project I'm currently site managing – Royal Court, Meridian Park, Waltham Abbey. We're transforming a redundant, brownfield site into a prestige housing development. It's a challenge that gives an extra dimension to job satisfaction."

TURNOVER

£89.0m

Kier Residential has had another excellent year, building on the success of the past few years.

CLOCKWISE FROM TOP

The dining room in a 'Pegasus' house from the New Concept range by Twigden Homes at The Manor, Northants.

The lounge in a 'Beaufort' house from the Tudor range by Twigden Homes, at The Fairways, Brampton.

Street scene at Cedar Grange, Iver Heath, Bucks, a development of 4 and 5 bedroomed executive properties from the Tudor and New Concept ranges by Bellwinch Homes.

TWIGDEN Homes

BELLWINCH Homes

KIER Homes

KIER Land

Overview

Kier Residential has had another excellent year, building on the success of the past few years. The focus on achieving value rather than volume continues, and Kier Residential has continued to invest in its greatest asset, its people.

The total number of homes sold during the year was 573, compared with 610 last year. However, although volume has been lower, this has been more than offset by higher average selling prices, which have risen 9.1% from £130,400 per unit to £142,300. This has resulted in an overall increase in turnover. Our forward order book at the year end was 52% ahead of last year, representing the strongest forward sales position ever achieved. An operating margin of 13.1% was achieved compared with 11.9% in 1999.

The recent launch of Kier Land as a division of Kier Residential endorses our commitment to extend and improve the land-bank. Investment of around £32m in residential land has put us in a very strong position, with a forward land-bank of 2,030 plots with planning permission held at the year end.

Our new web site – www.kierresidential.co.uk – has also been successfully launched, which gives potential purchasers easy access to our rapidly expanding portfolio of new homes.

The recent launch of Kier Land endorses our commitment to extend and improve the land-bank.

Notable achievements

During the year several new house styles have been introduced, including the Victorian and the Essex range. These complement the popular Regency, Rural, New Concept and Country ranges. The new house styles are specifically designed to blend in with other homes in the surrounding areas. This has found favour alike with planners, local residents and potential purchasers.

Following the successful expansion into the East Midlands, Twigden Homes has launched new house types at new developments now under way in Lower Quinton, Desford, Rugby and South Kilworth. Others are due to start later in the year at North Kilworth and Burwell. Development is also going well on new sites in Haverhill, Bishops Stortford, Northampton, Helpston and Waltham Abbey. Development is now well under way on the first phase of 350 houses and bungalows at Royston on strategic land that was first identified 16 years ago.

Meanwhile, Kier Homes is fast becoming an established Scottish central belt player, with £11m already invested in 720 plots for future development. Kier Homes recently celebrated the sale of its 100th home, and now has five sites under way.

Bellwinch Homes also started a number of new developments in the last year and currently ten sites are under construction, with seven more to be released over the coming months. A particular accolade for Bellwinch Homes was the achievement of the highest price ever for a Kier Residential property, with the sale of a home at Cobham in Surrey for £800,000.

FAR LEFT
The kitchen of the 'Beaufort' showhome by Twigden Homes, at The Fairways, Brampton, Cambs.

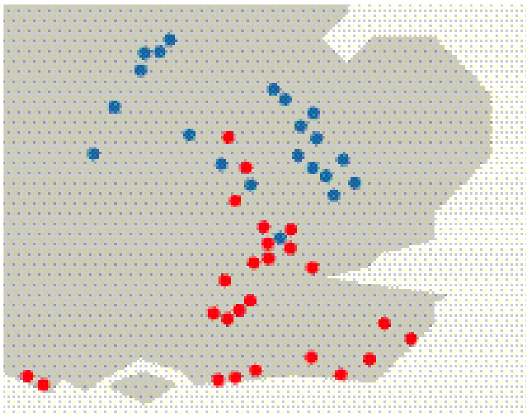
LEFT
The 'Lancaster' at Cedar Grange, Iver Heath, Bucks. By Bellwinch Homes.

ABOVE
The 'Hemingford' showhome at Marymede, Helpston, near Peterborough. By Twigden Homes.

ABOVE MIDDLE
The 'Gemini' showhome at The Hedgerows, Bishop's Stortford. By Twigden Homes.

ABOVE RIGHT
The 'Maldon' lounge/dining room at Royal Court, Meridian Park, Waltham Abbey. By Twigden Homes.

KEY TO MAPS
- Twigden Homes
- Bellwinch Homes
- Kier Homes



Brownfield development

Exciting future plans for Bellwinch Homes include the redevelopment of Weymouth College's Newstead Road campus, where it will be constructing 100 new homes which will be a mix of two-bedroomed apartments, two and three-bedroomed cottages and houses and three and four-bedroomed townhouses. The college will be relocating to brand new premises (to be constructed by Kier Regional) at its Cranford Avenue campus where Bellwinch Homes will also be developing 32 apartments and two Victorian themed town houses. Bellwinch Homes is already well known in the area, having won a Civic Society award for a previous development in Weymouth.

The Weymouth project is just one example of our move towards more brownfield development. Whilst many of Kier Residential's new developments are in small market towns or villages, which are predominantly greenfield land, we are increasingly developing brownfield sites, in accordance with the Government's guidelines. Our redevelopment of an unsightly factory site in the village of East Hoathly into 'The Mews', our successful new homes development, is a case in point.

Approximately 40% of our developments have been on brownfield land in the last year, the most notable being our landmark scheme at Meridian Park, Waltham Abbey where the regeneration of this disused munitions depot is of benefit to the area.

Teamwork

As at Weymouth, the new Meridian Park at Waltham Abbey, is an excellent example of teamwork between different Kier companies. French Kier Anglia has recently constructed a link road to junction 26 of the M25 providing direct access to Meridian Park. Twigden and Bellwinch Homes, together with a consortium of housebuilders, are constructing 445 new homes ranging from one-bedroomed apartments through to five-bedroomed houses and have already achieved a high level of sales. Kier Ventures, meanwhile, is constructing a new commercial development on a further part of the site.

Similarly, Kier Ventures is working with Twigden Homes on a joint development in Haverhill, Suffolk.

ABOVE
The show complex at Royal Court, Meridian Park at Waltham Abbey by Twigden Homes.

Environmental issues

Kier Residential has now published an environmental policy to demonstrate our awareness of the impact that housebuilding can have on the environment, and to guarantee that we will minimise these effects wherever possible.

For example, the new development at Waltham Abbey consists of 31 hectares for residential and business development, with 110 hectares of newly established parkland, open space and highways. Due to the nature of the site, a number of environmental issues required addressing. For example, the containment of pollutants – and the 'rehousing' of grass snakes and bats. Similarly, at Lower Quinton we ensured that the resident bats and badgers were protected.

One of the most interesting environmental issues has been the archaeological findings that were made by Twigden Homes when it started excavation work at the new development in Desford. Once aware of the nature of the discoveries, Twigden Homes funded an archaeological dig by the University of Leicester Archaeological Services. A late iron age/early Roman settlement was discovered, with remains including pottery, Roman bronze brooches and a buckle clasp.

Obviously, due to the nature of the archaeological dig, construction at Desford was delayed for some time, but this has been compensated for by the local community support that we are now receiving.

Customer satisfaction

Quality, service and presentation remain the watchwords for all the companies within Kier Residential, and we will always seek the highest possible standards from our staff, suppliers and subcontractors. Our ethos is that 'our customers of today are our salespeople of tomorrow' and the success of the company is not just measured in financial terms, it is dependent on the number of satisfied clients that we create.

This has recently been recognised with our 'Customer Satisfaction' award from home insurer, Zurich. The quality of our site staff has also received official recognition. Once again we had a good result in this year's NHBC 'Pride in the Job' campaign, with three of our site managers achieving awards – one for the second year running. Another went on to achieve a 'Top 100 Seal of Excellence' award, giving him official recognition as one of the top 100 Site Managers in the UK.

Investment in our people remains one of our top priorities and this has paid off with a number of internal promotions – five to director level. We are committed to the ongoing training and development of our staff.

Quality, service and presentation remain the **watchwords** for all the companies in Kier Residential.

Kier Commercial

TURNOVER

£8.4m

Kier Ventures has had another **successful year.**

LEFT & ABOVE
Building in progress at Warth Park in Northamptonshire, a Kier Ventures development.

Kier Ventures has had another successful year with significant progress being made on many of its commercial developments.

At Warth Park in Northamptonshire, where we are in joint venture to develop 75 acres, the first tenant has now been secured. General Domestic Appliances Limited (jointly owned by Marconi and the General Electric Co of America) will take occupation of their purpose-built 320,000 sq ft distribution centre in the New Year. This building, which will be the UK distribution centre for all Hotpoint, Creda and Cannon domestic appliances, marks the first phase of development on this prime A14 corridor site. Discussions with a second major occupier are currently taking place.

At Cheshunt, considerable interest was shown in the town centre site on which we commented last year. Terms were agreed with Tesco and the sale completed before the year end.

The development at Waltham Point on the M25, where Kier is in joint venture with Norwich Union Life and Pensions Limited, is proceeding well. A pre-letting (subject to planning) with Sainsbury has recently been secured for a state of the art distribution centre of some 700,000 sq ft, one of the largest pre-lets of its kind in the UK. The centre will be among the most advanced in Europe. Marketing of the remaining land on this M25 development is proceeding well, with strong interest from a variety of potential occupiers.

Our retail site in Haverhill is now well established, with Great Mills taking occupation of its 35,000 sq ft unit in August 1999. Negotiations are well advanced for a fast food outlet to be secured, with interest also being shown by prospective tenants for the remaining 10,000 sq ft unit.

During the year, we sold the Group's stake in the Oxford Business Park, under development at Cowley on Oxford's Eastern Bypass. Kier had been involved with this project since inception, taking a minority share in a three-way joint venture with Arlington Securities plc and Citibank, following remediation of the site of the former car plant by Kier Regional in 1995. Since then six phases of development have occurred, involving over 180,000 sq ft of office space (all built by Kier Regional), in a fine example of brownfield regeneration. This year Arlington negotiated to buy out its partners and we realised a profit of £0.5m on the £0.9m original investment, together with a profit distribution of £0.3m.

Many development opportunities continue to be assessed by our experienced team, and with the Birmingham office now firmly established we are already seeing increased activity within the Midlands region. We are confident Kier Ventures will continue to produce added value to the Group.

Kier Project Investment

Gathering Momentum

Kier Project Investment has been co-ordinating and promoting the Group's involvement in the Private Finance Initiative. We have always been enthusiastic supporters of the initiative, believing it will transform many areas of the public services for the better. Long lead times are an inevitable feature of the process but our endeavours are now bearing fruit. Our successes to date are already adding significantly to order book and turnover in the operating divisions and will next year produce the first investment returns.

A multi-million pound investment programme is gathering momentum.

The two major hospital projects which are now being built (Hairmyres Hospital, East Kilbride, and Baglan Moor Hospital, Neath) represent committed investment by Kier in equity and loans of £6.3m which will bring returns in the mid-teens per annum over 30 years.

Two further projects recently committed, Bournemouth Library, where construction is now commencing, and West Berks Mental Health Hospital, together represent a further investment of £2.2m, with a similar return profile.

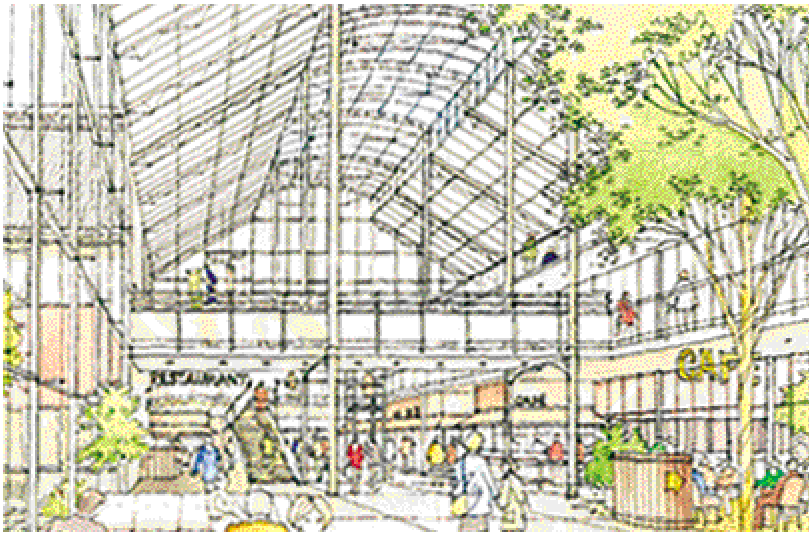
Progress in the Year

Early in 2000 Kier, in consortium with others, was awarded the concession to design, construct and operate a new 270 bed hospital on behalf of Bro Morgannwg NHS Trust in Baglan, South Wales. Caxton Facilities Management, the Group's Cardiff-based facilities management subsidiary, was awarded the concession to provide non-clinical support services over the $27\frac{1}{2}$ year term. Kier holds 25% of the consortium equity.

At Hairmyres in East Lanarkshire, where the Group achieved its first major PFI success in 1998, construction work continues ahead of schedule and we look forward to handing over the new hospital four months early. Kier holds 50% of the consortium equity.

In the Local Authority sector, we have recently announced the financial closure of Bournemouth Library with Kier to hold a 50% equity stake in the consortium. Under the 30 year PFI concession, Kier Regional will construct a new library and retail complex which will be maintained and serviced by Caxton Facilities Management for the concession period.

As we look ahead, we confidently expect to bring to fruition a further healthcare project. Our consortium, in which we hold 50% of the equity, has been named preferred bidder for a new 203 bed hospital in Reading, Berkshire. Kier Build will undertake construction work which is due to commence later this year. This will be the third PFI concession for Kier in health establishing the Group as one of the leading players in this sector.



ABOVE
Artist's impression of Baglan Moor Hospital, a new £54m hospital for Neath & Port Talbot. Two Kier companies, Kier Project Investment and Caxton Facilities Management, are part of the consortium delivering Wales' biggest ever hospital procured under the Government's Private Finance Initiative.

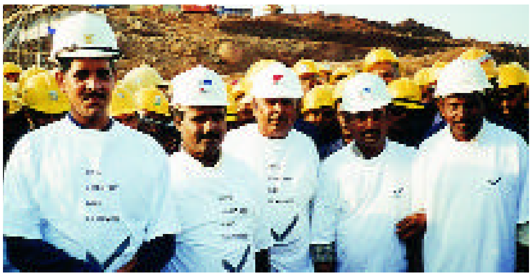
Long lead times are an inevitable feature of the process but our endeavours are **now bearing fruit.**

Kier Engineering Services

The Kier in-house engineering department had a busy year working for companies throughout the Group on projects both at home and abroad. Among hundreds of assignments were industrial developments for French Kier Anglia, façade retention and basement support schemes for Kier London and Kier Build, wind farm turbine foundations for Kier Construction in Scotland, and for Kier International, complex temporary works for railway stations in Hong Kong and for marine pipelines and jetties in India.

Electronic communications are now such that engineering information can be passed instantly to and from anywhere in the world in the form of reports, drawings and colour photographs. Particularly in the case of Kier International's jobs, solutions to problems can often be transmitted in time for the next day's work; one team works while another sleeps, due to time zone differences.

Kier Engineering Services plays a full part in staff development and training for all Kier Group companies. Senior engineering staff organise and lecture on internal company courses and engineering graduates are seconded into the department for periods of design training in preparation for chartered membership of professional institutions.



ABOVE
Some of the local workforce at Kier International's Dabhol Jetty project in India pictured during a site visit by the Group's Health & Safety manager as part of the 'Working Well Together' campaign.

Kier and Health & Safety

During the year, the Group has been actively supporting the industry's 'Working Well Together' campaign in conjunction with the HSE. Through a series of seminars for subcontractors, school liaison and health and safety presentations featuring 'Kieran' the safety cadet, Kier is encouraging as many individuals and groups as possible to buy in to the campaign.

At the HSE's 'Working Well Together' national conference at the NEC in Birmingham, Kier Group Health & Safety Manager John Morgan delivered the contractors' keynote speech. This outlined the purpose of the campaign, namely commitment, co-operation, competence and communication, and was well received by the 1000 strong audience. The message of the campaign has been delivered to employees on all Kier sites worldwide.

While Kier's safety record is still one of the best in the industry, the Group does acknowledge that, sadly, incidents do still happen and it will continue to work closely and in harmony with the HSE to help make not just Kier sites, but the construction industry as a whole, a safer place to work.

The Group's 'incidence rate' (a measure of frequency of reportable accidents per 100,000 employees) was 933 during the year. The benchmark in the construction industry, as measured by the HSE, was 1406. Kier remains in the top ten of major contractors by this measure.

Kier Group was awarded a British Safety Council National Award in 1999, together with a Quality in Construction award in Health & Safety. Kier Construction, the Group's heavy civil engineering arm, received awards from RoSPA and the British Safety Council. Of significant note is Kier International's project in Suriname (a joint venture with Commercial Contracting Company of San Antonio Inc), which has achieved 1,750,000 man-hours of incident-free working.

Kier's project in Suriname has achieved 1,750,000 man-hours of incident-free working.

ABOVE & LEFT
The health & safety department is the driving force behind a children's safety awareness campaign. This is endorsed by 'Kieran' the Group's safety cadet who features on a range of products including books and child-sized high visibility jackets.

Kier and the Environment

Following its launch at the beginning of the year, the Kier Group Environmental Policy 2000 has sparked a great deal of interest both internally and externally.

A series of environmental awareness seminars have been held Group-wide which have been enthusiastically received.

All operating companies and their divisions are responding to an environmental survey which covers a review of compliance with legal and regulatory requirements, a comprehensive range of environmental management issues and a resource use and waste inventory.

The results of the survey will assist in formulating strategies which will be used to monitor improvements in environmental performance on an ongoing basis.

Kier Group continues to support external initiatives for environmental improvement including research into both sustainable energy and contaminated land assessment.

ABOVE
Site supervisory staff from around the Group, having gained their CIOB certificates, now working towards their CIOB diplomas due to be awarded in December.

Training and development

Staff training and development to meet the changing needs of our diverse business remains a priority. Management training for all levels from first line supervisor to director is given through bespoke in-house programmes. Over 50 different training courses are on offer to enable Kier people to respond effectively to the customers' needs.

Kier attracts and selects the best graduates through an intensive process of milkround visits encompassing 33 universities, followed up by second interviews at Tempsford Hall. This year we have successfully recruited 60 graduates – one of the highest intakes of the industry – including quantity surveyors, civil engineers and building engineers.

Kier's reputation as an 'employer of choice' amongst the graduates is partly due to its unique six-year graduate development programme. This positively encourages Kier graduates to gain chartered status and to develop the skills, competencies and experience necessary for senior management roles.

All Kier graduates attend a two-week bespoke induction course at the National Construction College. This starts with an action-packed team development weekend of abseiling, team working, cycling through mud and other outward bound challenges – all mentally and physically exhausting! This is followed by construction skills and levelling & setting out courses. This induction is structured to help the Kier graduates develop a support network, feel part of the Kier culture and understand their respective structured career paths.

Each year Kier provides places for around 40 to 50 students, giving each a valuable chance to experience, first hand, the excitement, challenge and job satisfaction the construction industry has to offer, both in the office and on site. Sponsorship packages for school leavers or final year university students are available to help encourage more talented youngsters to join Kier on graduation.

All site supervisory staff at Kier get the chance to qualify for a CIOB certificate and diploma through a programme of training courses on the CIOB Site Management Education and Training Scheme (SMETS). This year, 20 general foremen, foremen and works managers from around the Group, having gained their CIOB certificates, are now working towards their CIOB diplomas which are due to be awarded in December.

Kier attracts and selects the best graduates through an **intensive process.**

Directors' report

The directors present their annual report and audited financial statements for the year ended 30 June 2000.

Principal Activities and Business Review

The Group's principal activities are construction and residential and commercial development.

A review of the Group's business and progress is given within the Chairman's Statement and Review of Operations on pages 4 to 32.

Results and Dividends

The Group profit for the year after taxation was £13.1m (1999: £9.9m).

An interim dividend of 3.4p per share (1999: 3.0p) amounting to £1.1m was paid on 17 May 2000. The directors propose a final dividend of 7.3p per share (1999: 6.3p per share) amounting to £2.4m payable on 12 December 2000 to shareholders on the Register of Members at the close of business on 6 October 2000.

Share Capital

Details of shares allotted by the Company during the year appear in note 18 to the financial statements.

Directors

The directors of the Company during the year are listed on pages 2 and 3.

At the forthcoming Annual General Meeting resolutions will be proposed for the re-election of Mr P F Berry and Mr M P W Scarth as directors of the Company. At that date, the unexpired term of the contract of employment with the Company with Mr Scarth will be twelve months. Mr Berry does not have a service contract. Mr Corbett will be retiring by rotation as a director at the forthcoming Annual General Meeting and will not be seeking re-election.

Service Agreements

The executive directors of the Company have twelve month rolling term contracts and are permitted to hold external appointments only with the approval of the Board of Directors.

Remuneration Policy

The remuneration policy in respect of executive directors is to ensure that individual remuneration reflects the performance of the Company, the performance of each director, and the interests of the shareholders; and that the overall remuneration package enables the Company to attract and retain high calibre executives. In each case, the emphasis is on performance over the longer term. The Remuneration Committee retains external advisers and also consults a number of surveys which analyse levels of remuneration in broadly comparable companies.

Directors' Emoluments

The value of all emoluments receivable by each director in respect of the year ended 30 June 2000 was as follows:

	Salary & fees £000	Benefits £000	Bonus £000	Total 2000 £000	Total 1999 £000
C R W Busby	244	14	25	283	259
P F Berry	20	–	–	20	19
D V Brand	168	9	17	194	179
P G Corbett	20	–	–	20	19
J Dodds	168	8	17	193	178
D Homer	157	8	17	182	163
M P W Scarth	178	8	18	204	187
P T Warry	20	–	–	20	19
	975	47	94	1,116	1,023

A bonus is paid to executive directors at a percentage of annualised basic salary (not exceeding 10%) if Group pre-tax profit attains a pre-set target.

Benefits comprise the provision of a motor car, fuel and private medical insurance.

Mr Berry's remuneration is paid to The Crown Agents for Oversea Governments and Administrations Limited.

Directors' Pensions

Executive directors participate in the Kier Group Pension Scheme which is a defined benefit scheme. The main terms and parameters of the scheme are disclosed in note 6 to the financial statements. Only the basic remuneration excluding any conditional payments is pensionable. Pension benefits earned by the directors during the year are disclosed below.

	Increase in accrued pension over the year £000	Transfer value of increase in accrued pension £000	Accumulated total accrued pension at year end £000
C R W Busby	17	236	148
D V Brand	12	201	123
J Dodds	10	143	96
D Homer (see below)	2	23	50
M P W Scarth	11	164	112

The increase in accrued pension during the year excludes any increase for inflation.

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

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

The accumulated total accrued pension of the Chairman, who is the highest paid director, as at 30 June 2000 was £130,000.

The Company operates a funded unapproved retirement benefit scheme ('FURBS') for the benefit of Mr Homer. As Mr Homer joined the Company after 1 June 1989 his benefits from the Kier Group Pension Scheme are based on a capped annual salary in accordance with Inland Revenue requirements, currently £91,800. During the year the Company contributed £48,375 (1999: £43,000) to the FURBS, a defined contribution scheme. The amounts payable on retirement from the FURBS are not included in the table set out above.

Directors' Interests and Share Options

The directors of the Company are shown below. They had the following beneficial interest (including interests of dependent family members) in the Ordinary Shares of the Company:

	30 June 2000	1 July 1999
C R W Busby (chairman)	630,385	624,066
P F Berry (non-executive)	3,800	3,800
D V Brand	494,095	488,977
P G Corbett (non-executive)	3,975	1,975
J Dodds	550,364	550,364
D Homer	57,301	56,315
M P W Scarth	396,191	394,924
P T Warry (non-executive)	6,656	4,755

In addition, the executive directors, as potential beneficiaries of the trust, are deemed along with all other UK employees to have an interest in 200,000 Ordinary Shares with a nominal value of £2,000, representing 0.6% of the called up share capital of the Company, held by the trustee of the Kier Group 1999 Employee Benefit Trust.

At 18 September 2000 the following directors had acquired beneficial interests in further Ordinary Shares: Mr C R W Busby, 8 shares; Mr M P W Scarth, 8 shares. There had been no changes in the interests of the other directors since 30 June 2000.

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

	30 June 2000	1 July 1999
C R W Busby	84,470	84,470
D V Brand	84,470	84,470
J Dodds	84,470	84,470
D Homer	84,470	84,470
M P W Scarth	84,470	84,470

The Performance Related Options were granted on 5 December 1996 and 6 December 1996 at an exercise price of 170p and on 14 October 1998 at an exercise price of 189.5p. They become exercisable in full between three years and ten years after the date they were granted subject to the Company's total shareholder return over any three year period ending on the anniversary of the date of grant outperforming 75% of a peer group of 20 selected companies in the building and construction sector. Options do not become exercisable if the Company remains below the median position of the peer group. If the Company reaches but does not exceed the median position, 50% of the shares could be acquired on exercise of the option; between median and next quartile the amounts exercisable are pro rated. Based on total shareholder return over the three year period ended December 1999 directors were entitled to acquire 76% of the shares over which they were granted options in 1996. No Performance Related Options held by directors were exercised or lapsed during the year.

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

	Exercise price	1 July 1999	Granted during the year	Exercised during the year	Market price at date of exercise	30 June 2000
C R W Busby	170p	986	–	986	276.0p	–
	250p	–	651	–	–	651
D Homer	170p	986	–	986	278.5p	–
M P W Scarth	170p	986	–	986	283.5p	–
	250p	–	651	–	–	651

The aggregate gain made by directors on exercise of the Sharesave Scheme Options was £3,234. No Sharesave Scheme Options held by directors lapsed during the year.

The Sharesave Scheme Options held by directors at 30 June 2000 are exercisable between 1 July and 31 December 2003.

The market price of the Ordinary Shares at 30 June 2000 was 271p. The range during the year was 226.0p to 326.5p.

Long Term Incentive Plan

The Kier Group 1999 Long Term Incentive Plan, which was approved at the 1999 Annual General Meeting, was established during the year. Awards under the Plan include the following awards made to executive directors of the Company who were not within two years of their normal retirement date in the form of a deferred right to acquire at no cost the following maximum number of Ordinary Shares in the Company:

C R W Busby	41,459
J Dodds	28,524
D Horner	28,192
M P W Scarth	30,182

The awards are subject to the Company achieving the following adjusted earnings per share growth targets:

- the directors will receive 100% of the award if earnings per share have increased over a three year period ending on 30 June 2002 by at least 25% per annum compound (the "Maximum Target");
- no awards will vest unless earnings per share over the same period have increased by at least 7.5% per annum compound (the "Base Target") at which point 25% of the award will vest;
- the proportion of the award which will vest for performance between the Base Target and the Maximum Target will be calculated on a straight line basis.

The aggregate value of the Ordinary Shares conditionally awarded to the directors on the date of the awards was £387,000.

Substantial Shareholdings

At 18 September 2000 the Company had been notified of the following interests in the Ordinary Share capital of the Company:

Standard Life Group	8.3%
Electra Investment Trust Plc	4.5%
Fleming Mercantile Investment Trust Plc	4.4%

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

Combined Code
A statement on Corporate Governance is set out on pages 38 to 39.

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

Donations
Group donations to charity in the United Kingdom were £26,000 (1999: £21,000). No political donations were made (1999: nil).

Year 2000
The process to ensure systems were Year 2000 compliant was completed successfully without disruption to Group businesses. The additional costs were not considered material.

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

Subsidiary trading companies within the Group, acting in accordance with the above policy, exhibit creditor days averaging 42 (1999: 38) in respect of suppliers of invoiced goods and services and 24 (1999: 26) in respect of certified amounts due to subcontractors. These figures exclude amounts not currently due for payment but included within trade creditors.

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

By Order of the Board

D V Brand
Secretary

19 September 2000
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Corporate governance

The Code

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

Board of Directors

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

The roles of chairman and chief executive are held by one director. The Board considers this arrangement provides effective leadership and is appropriate for the governance of Kier Group plc in view of the balanced nature of the Board, which has a strong and independent non-executive element, including a recognised senior member, and a well established and experienced executive element. This, coupled with clear board procedures for decision making, ensures that there is no undue concentration of power in any one individual.

The senior independent director nominated by the Board for the purposes of Provision A.2.1 of the Combined Code has throughout the period been Mr P G Corbett. From the date of the forthcoming Annual General Meeting, this role will be taken by Mr P F Berry.

The Board meets regularly throughout the year and has responsibility for the strategic and financial policies of the Group including monitoring and reviewing business performance.

Audit Committee

The Audit Committee comprises the three non-executive directors under the chairmanship of Mr P G Corbett. The Committee meets generally three times a year and will usually request the attendance of the Group finance director.

The Committee's objects are to keep under review the Company's accounting and financial policies and controls to satisfy itself that appropriate audit arrangements are in force and relationships with external auditors are properly managed and to ensure the integrity of the financial statements and other information published by the Company.

Remuneration Committee

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

The Remuneration Committee which meets generally three times per year 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.

Nomination Committee

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

Internal Financial Control

The Combined Code has introduced a requirement that the directors review the effectiveness of the Group's system of internal control. This extends the directors' review to cover all controls - including operational, compliance and risk management - as well as financial controls. During the year the Institute of Chartered Accountants in England & Wales published its guidance on the new requirements. The directors are satisfied that procedures are in place to ensure that the Group complies with this guidance from 1 July 2000. For the year ended 30 June 2000, in accordance with Stock Exchange advice, the directors have continued to follow the guidance issued in December 1994, for the review of the effectiveness of internal financial control.

The Board of Directors has overall responsibility for the Group's system of internal financial control.

The directors have established an internal control framework which is designed to provide reasonable but not absolute assurance against material misstatement or loss. In reviewing the effectiveness of internal financial controls which have been developed and refined over many years the directors have considered the key risks and exposures within the Group.

The principal financial controls are:

- an established management structure operating throughout the Group;
- clearly defined operating guidelines and procedures with authorisation limits set at appropriate levels;
- a comprehensive budgeting system which is regularly reviewed and updated;
- regular comparison of actual results against latest forecasts; and
- a system of self-examination and self-certification of financial controls by subsidiaries.

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

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

Relations with Shareholders

The Board uses the Annual General Meeting (AGM) to communicate with private investors and encourages their attendance and participation in the AGM. The Group also maintains a regular dialogue with institutional investors to assist in the understanding of the Group's objectives.

Statement of directors' responsibilities

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

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

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

Report of the auditors, KPMG Audit Plc, to the members of Kier Group plc

We have audited the financial statements on pages 42 to 60.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report. As described on page 40, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on pages 38 and 39 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

19 September 2000

Consolidated profit and loss account

for the year ended 30 June 2000

	Notes	2000 £m	1999 £m
Turnover – Continuing operations			
Group and share of joint ventures	2	**1,034.8**	962.9
Less share of joint ventures turnover		**(8.3)**	(8.4)
Group turnover		**1,026.5**	954.5
Cost of sales		**(966.4)**	(904.4)
Gross profit		**60.1**	50.1
Administrative expenses		**(44.9)**	(39.2)
Operating profit – Continuing operations – Group		**15.2**	10.9
Share of operating profit – joint ventures		**0.4**	1.7
Total operating profit: Group and share of joint ventures	2	**15.6**	12.6
Profit on disposal of fixed asset investment		**0.5**	–
Income from investments		**0.3**	–
Net interest receivable – Group	3	**1.3**	1.4
Net interest payable – joint ventures		**–**	(0.2)
Profit on ordinary activities before taxation	2	**17.7**	13.8
Taxation on profit on ordinary activities	7	**(4.6)**	(3.9)
Profit for the year		**13.1**	9.9
Dividends	8	**(3.5)**	(3.0)
Retained profit for the Group and its share of joint ventures	19	**9.6**	6.9
Earnings per Ordinary Share	9		
– basic		**39.8p**	30.6p
– diluted		**39.3p**	30.2p
Adjusted Earnings per Ordinary Share	9		
(excluding profit on sale of fixed asset investment)			
– basic		**38.3p**	30.6p
– diluted		**37.8p**	30.2p

Consolidated balance sheet

at 30 June 2000

	Notes	2000 £m	1999 £m
Fixed assets			
Tangible assets	10	**43.6**	46.3
Investments	11		
Investments in joint ventures			
Share of gross assets		**57.8**	43.2
Share of gross liabilities		**(55.2)**	(41.0)
		2.6	2.2
Investment in own shares	11	**0.6**	–
Other fixed asset investment		**–**	0.9
		3.2	3.1
		46.8	49.4
Current assets			
Stock	12	**149.5**	115.7
Debtors due within one year	13	**175.3**	158.7
Debtors due after more than one year	13	**11.8**	8.6
Short term investments		**0.8**	0.6
Cash at bank and in hand		**47.4**	44.1
		384.8	327.7
Current liabilities			
Creditors – amounts falling due within one year	14	**(373.4)**	(332.8)
Net current assets		**11.4**	(5.1)
Total assets less current liabilities		**58.2**	44.3
Creditors – amounts falling due after more than one year	14	**(8.6)**	(5.3)
Provisions for liabilities and charges	15	**(5.1)**	(5.5)
Net assets		**44.5**	33.5
Capital and reserves			
Called up share capital	18	**0.3**	0.3
Share premium account	19	**10.8**	9.4
Capital redemption reserve	19	**2.7**	2.7
Profit and loss account	19	**30.7**	21.1
Equity shareholders' funds		**44.5**	33.5

Company balance sheet

at 30 June 2000

	Notes	2000 £m	1999 £m
Fixed assets			
Investment in subsidiary undertakings	11	**54.6**	55.0
Investment in own shares	11	**0.6**	–
		55.2	55.0
Current assets			
Debtors	13	**4.6**	6.7
Cash at bank and in hand		**20.5**	36.6
		25.1	43.3
Current liabilities			
Creditors – amounts falling due within one year	14	**(41.4)**	(59.3)
Net current liabilities		**(16.3)**	(16.0)
Total assets less current liabilities		**38.9**	39.0
Creditors – amounts falling due after more than one year	14	**(15.0)**	(16.3)
Net assets		**23.9**	22.7
Capital and reserves			
Called up share capital	18	**0.3**	0.3
Share premium account	19	**10.8**	9.4
Merger relief reserve	19	**1.2**	1.2
Capital redemption reserve	19	**2.7**	2.7
Profit and loss account	19	**8.9**	9.1
Equity shareholders' funds		**23.9**	22.7

The financial statements were approved by the board of directors on 19 September 2000 and were signed on its behalf by:

C R W Busby

D V Brand

Directors

Consolidated cash flow statement

for the year ended 30 June 2000

	Notes	2000 £m	1999 £m
Net cash inflow from operating activities	20	**8.1**	18.8
Returns on investments and servicing of finance			
Interest received		**4.2**	1.5
Interest paid		**(4.0)**	(0.2)
Income from investments		**0.3**	–
		0.5	1.3
Taxation			
UK corporation tax paid		**(3.7)**	(3.2)
Overseas tax paid		**(0.7)**	(0.3)
		(4.4)	(3.5)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(6.6)**	(12.3)
Sale of tangible fixed assets		**1.5**	0.6
Sale of fixed asset investment		**1.5**	–
		(3.6)	(11.7)
Acquisitions			
Purchase of subsidiaries		**–**	(10.1)
Financing			
Issue of ordinary share capital		**1.2**	–
Purchase of own shares		**(0.6)**	–
		0.6	–
Equity dividends paid		**(3.0)**	(1.9)
Cash outflow before use of liquid resources		**(1.8)**	(7.1)
Management of liquid resources			
Net (increase)/decrease in short term bank deposits		**(16.2)**	14.9
Purchase of short term investment		**(0.2)**	(0.6)
		(16.4)	14.3
(Decrease)/increase in cash during the year		**(18.2)**	7.2
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash during the year		**(18.2)**	7.2
Cash outflow/(inflow) from movement in liquid resources		**16.4**	(14.3)
Movement in net funds in the year	20	**(1.8)**	(7.1)
Net funds at 1 July		**42.2**	49.3
Net funds at 30 June		**40.4**	42.2

Consolidated statement of total recognised gains and losses

for the year ended 30 June 2000

	2000 £m	1999 £m
Profit for the year	**13.1**	9.9
Total recognised gains and losses for the year	**13.1**	9.9

Reconciliation of movements in shareholders' funds

for the year ended 30 June 2000

	Group		Company	
	2000 £m	1999 £m	**2000** £m	1999 £m
Shareholders' funds at 1 July	**33.5**	25.8	**22.7**	21.8
Issue of shares				
Share premium	**1.4**	0.8	**1.4**	0.8
Total recognised gains and losses for the year	**13.1**	9.9	**3.3**	3.1
Dividends	**(3.5)**	(3.0)	**(3.5)**	(3.0)
Shareholders' funds at 30 June	**44.5**	33.5	**23.9**	22.7

Notes to the financial statements

1 Accounting policies

Convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Consolidation

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

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

Turnover

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

Profits

Profits in respect of long term contracts are recognised on a percentage of completion basis where the contract's ultimate outcome can be foreseen with reasonable certainty. Profits in respect of short term contracts are taken when the contract is completed. Provision is made for all foreseeable contract losses.

Profits in respect of house sales are taken at the time of legal completion of the sale. Profits in respect of land sales and land exchanges are taken on the unconditional exchange of contract.

Tangible fixed assets

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

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

Leased assets

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

1 Accounting policies continued

Stock

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

Deferred taxation

Deferred taxation is provided at expected future corporation tax rates in respect of timing differences between profits computed for taxation and accounts purposes unless it is probable that the taxation will not become payable in the foreseeable future.

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

Joint arrangements and joint ventures

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

Foreign currencies

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

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

Pension costs

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

Variations from regular costs are spread over the average remaining service lives of current employees in the pension schemes.

2 Turnover, profit and segmental information

Segmental analysis of the results is shown below:

	Turnover		Operating profit		Profit before tax	
	2000 £m	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m
Construction & Services	**937.4**	857.7	**6.5**	4.0	**13.5**	11.0
Homes & Property	**97.4**	105.2	**13.2**	12.0	**10.0**	9.0
Corporate Overhead/Finance	**–**	–	**(4.1)**	(3.4)	**(5.8)**	(6.2)
	1,034.8	962.9	**15.6**	12.6	**17.7**	13.8

	Net operating assets		Net assets	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Construction & Services	**(98.8)**	(87.3)	**52.4**	50.2
Homes & Property	**100.2**	76.9	**25.0**	21.0
Corporate Overhead/Finance	**2.7**	1.7	**(32.9)**	(37.7)
	4.1	(8.7)	**44.5**	33.5

Geographical analysis of the results is as follows:

	Turnover		Operating profit		Profit before tax	
	2000 £m	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m
United Kingdom	**944.7**	884.9	**16.8**	14.1	**19.4**	15.9
Rest of World	**90.1**	78.0	**(1.2)**	(1.5)	**(1.7)**	(2.1)
	1,034.8	962.9	**15.6**	12.6	**17.7**	13.8

	Net operating assets		Net assets	
	2000 £m	1999 £m	**2000 £m**	1999 £m
United Kingdom	**16.3**	(11.6)	**43.1**	30.9
Rest of World	**(12.2)**	2.9	**1.4**	2.6
	4.1	(8.7)	**44.5**	33.5

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

Net operating assets represent net assets excluding cash, bank overdrafts and interest bearing inter-company loans (see note 14).

2 Turnover, profit and segmental information continued

Profit on ordinary activities before taxation is stated after charging:

	2000 £m	1999 £m
Remuneration of auditors – audit fees	**0.5**	0.6
– other fees	**0.1**	0.2
Hire of plant and machinery	**23.4**	20.7
Operating lease rentals:		
Land and buildings	**0.8**	0.7
Plant and machinery	**5.6**	4.7
Depreciation of tangible fixed assets	**7.8**	6.7

Remuneration of the auditors in respect of the Company for audit amounted to £3,700 (1999: £3,600).

3 Net interest receivable – Group

	2000 £m	1999 £m
Interest receivable	**1.9**	1.6
Interest payable on bank loans, overdrafts and other loans repayable within five years	**(0.6)**	(0.2)
	1.3	1.4

4 Information relating to employees

	2000 No	1999 No
Average number of persons employed during the year including executive directors was:		
United Kingdom	**4,343**	4,224
Rest of World	**2,008**	2,329
	6,351	6,553

	£m	£m
Group staff costs are as follows:		
United Kingdom	**118.2**	108.1
Rest of World	**14.3**	16.6
	132.5	124.7
Wages and salaries	**114.9**	109.4
Social security costs	**8.8**	8.0
Other pension costs (note 6)	**8.8**	7.3
	132.5	124.7

5 Information relating to directors

Information relating to directors' emoluments, pension entitlements, share options and long term incentive plan interests appears in the Directors' Report on pages 33 to 37.

6 Pensions

The principal UK pension scheme is the Kier Group Pension Scheme which is a defined benefit scheme. The assets of the Scheme are held under trust separately from those of the Group and invested directly on the advice of independent professional investment managers. Pension costs are assessed on the advice of an independent qualified actuary using the projected unit method and the following main assumptions;

- pension liabilities will be discounted at the rates of 6.8% per annum pre-retirement and 5.5% per annum post-retirement
- salary increases will be 4.3% - 4.8% per annum
- present and future pensions will increase at either 2.7% (Limited Price Indexation) or at rates set in the Scheme rules
- assets will be taken at market value (less an asset allocation adjustment of £10m)

The same method and assumptions (excluding the asset allocation adjustment) were used for the regular actuarial valuation of the Scheme as at 1 April 2000 which showed that the market value of the Scheme's assets was £309.0m and that this represented 103% of the value of the benefits which had accrued to members, after allowing for projected future increases in salaries.

The contributions paid during the year, and the pension charge, amounted to £8.6m (1999: £7.0m).

Contributions are also made in respect of former members of the Kier Group Retirement Benefit Scheme to two smaller schemes operating in recently acquired subsidiaries and to an industry-wide scheme. The pension costs for these have been taken as the actual contributions paid over the year.

7 Taxation

	2000 £m	1999 £m
UK corporation tax at 30% (1999: 30.75%)	**4.2**	2.2
Overseas taxation	**0.2**	0.1
Joint venture taxation	**0.1**	0.5
Deferred tax	**0.1**	1.1
	4.6	3.9

8 Dividends

	2000 £m	1999 £m
Ordinary Shares		
Paid 3.4 pence (1999: 3.0 pence)	**1.1**	1.0
Proposed 7.3 pence (1999: 6.3 pence)	**2.4**	2.0
	3.5	3.0

9 Earnings per share

Earnings per share is calculated as follows:

	2000 Basic £m	2000 Diluted £m	1999 Basic £m	1999 Diluted £m
Profit after tax	**13.1**	**13.1**	9.9	9.9
Less: profit on disposal of fixed asset investment	**(0.5)**	**(0.5)**	–	–
Adjusted profit after tax	**12.6**	**12.6**	9.9	9.9
	million	**million**	million	million
Weighted average number of shares	**32.9**	**32.9**	32.4	32.4
Weighted average number of unexercised options – dilutive effect	**–**	**0.3**	–	0.4
Weighted average impact of LTIP	**–**	**0.1**	–	–
Weighted average number of shares used for EPS	**32.9**	**33.3**	32.4	32.8
	pence	**pence**	pence	pence
Earnings per share	**39.8**	**39.3**	30.6	30.2
Adjusted earnings per share (after excluding profit on sale of fixed asset investment)	**38.3**	**37.8**	30.6	30.2

10 Tangible fixed assets

Group	**Land and buildings £m**	**Plant vehicles & fixtures £m**	**Total £m**
Cost			
At 1 July 1999	19.8	63.1	82.9
Additions	0.3	6.6	6.9
Disposals	(0.8)	(9.2)	(10.0)
Currency realignments	–	0.5	0.5
At 30 June 2000	**19.3**	**61.0**	**80.3**
Accumulated depreciation			
At 1 July 1999	0.7	35.9	36.6
Charge for the year	0.3	7.5	7.8
Disposals	(0.5)	(7.5)	(8.0)
Currency realignments	–	0.3	0.3
At 30 June 2000	**0.5**	**36.2**	**36.7**
Net book value			
At 30 June 2000	**18.8**	**24.8**	**43.6**
At 30 June 1999	19.1	27.2	46.3

The net book value of land and buildings comprises freeholds of £17.9m (1999: £18.4m), and long leaseholds of £0.9m (1999: £0.7m). The net book value of fixed assets includes an amount of £0.5m (1999: £0.5m) in respect of assets held under finance leases on which there is accumulated depreciation of £3.5m (1999: £3.5m).

The net book value of land and buildings includes an investment property carried at £0.8m (1999: £1.1m). An officer of a subsidiary of the Company has valued the investment property at 30 June 2000 concluding that there is no material difference between the carrying value and the open market value of the property.

11 Investments

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Interest in subsidiary undertakings				
At 1 July	**–**	–	**54.1**	53.1
Additions	**–**	–	**0.5**	14.9
Disposals	**–**	–	**–**	(13.9)
At 30 June	**–**	–	**54.6**	54.1
Interest in joint ventures				
At 1 July	**2.2**	1.2	**–**	–
Share of retained profit	**0.4**	1.0	**–**	–
At 30 June	**2.6**	2.2	**–**	–
Interest in Oxford Business Park (South) Limited				
Shares at cost	**–**	0.1	**–**	0.1
Loans	**–**	0.8	**–**	0.8
	–	0.9	**–**	0.9
Own shares held by the Kier Group 1999 Employee Benefit Trust	**0.6**	–	**0.6**	–
Total investments	**3.2**	3.1	**55.2**	55.0

Details of the Group's principal operating subsidiaries are given on page 58.

Interest in joint ventures represents the Group's interest in 50% of the share capital of The Jordan Economic Development and Trading Company, 50% of the share capital of H DGH Holdings Limited and 25% of the share capital of Baglan Moor Holdings Limited.

During the year, the shares in Oxford Business Park (South) Limited were sold and the loans repaid. Also, the Kier Group 1999 Employee Benefit Trust acquired 200,000 Ordinary Shares in Kier Group at a cost of £0.6m.

12 Stock

	Group 2000 £m	Group 1999 £m
Raw materials and consumables	**0.7**	0.9
Long term contract balances	**25.4**	14.8
Land and work in progress held for development	**118.8**	96.0
Other work in progress	**4.6**	4.0
	149.5	115.7

Long term contract balances and other work in progress is stated net of payments receivable on account of £6.3m (1999: £4.4m).

13 Debtors

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Amounts falling due within one year:				
Trade debtors	**144.2**	135.3	**–**	–
Amounts recoverable on contracts	**16.6**	12.7	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**2.6**	5.0
Other debtors	**6.2**	3.7	**1.1**	0.9
Prepayments and accrued income	**2.9**	3.2	**–**	–
Advance corporation tax	**–**	0.1	**–**	0.1
Corporation tax	**–**	–	**0.9**	0.7
Other taxation	**5.4**	3.7	**–**	–
	175.3	158.7	**4.6**	6.7
Amounts falling due after one year:				
Trade debtors	**1.1**	–	**–**	–
Amounts recoverable on contracts	**10.7**	8.6	**–**	–
	11.8	8.6	**–**	–
Total debtors	**187.1**	167.3	**4.6**	6.7

14 Creditors

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Amounts falling due within one year:				
Bank loans and overdrafts	**7.8**	2.5	**15.3**	34.1
Payments received on account	**6.4**	6.5	**–**	–
Trade creditors	**266.7**	226.6	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**21.2**	21.4
Proposed dividend	**2.4**	2.0	**2.4**	2.0
Corporation tax	**2.6**	2.2	**–**	–
Other taxation and social security costs	**10.2**	9.2	**–**	–
Other creditors	**7.2**	6.1	**1.3**	0.9
Accruals and deferred income	**70.1**	77.7	**1.2**	0.9
	373.4	332.8	**41.4**	59.3

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Amounts falling due after more than one year:				
Trade creditors	**8.1**	4.9	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**15.0**	16.3
Accruals and deferred income	**0.5**	0.4	**–**	–
	8.6	5.3	**15.0**	16.3

The amount of £15.0m (1999: £16.3m) due to subsidiary undertakings relates to loans which were made to the Company in accordance with the provisions of Sections 151 to 158 of the Companies Act 1985. The loans bear interest at 1% over bank base rate and are fully repayable by 3 July 2006.

15 Provisions for liabilities and charges

Group	Deferred tax £m	Provisions for contract losses £m	Total £m
At 1 July 1999	1.8	3.7	5.5
Profit and loss account	0.1	(0.5)	(0.4)
At 30 June 2000	**1.9**	**3.2**	**5.1**

Deferred taxation in respect of capital allowances and short term timing differences is fully provided as follows:

	2000 £m	1999 £m
Capital allowances	**1.6**	1.6
Short term timing differences	**0.3**	0.2
	1.9	1.8

16 Obligations under leasing agreements

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

	Land and buildings		Plant and machinery	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Operating leases expiring:				
Within one year	**–**	0.1	**0.7**	0.3
Between one and five years	**0.3**	0.3	**4.0**	4.3
In five years or more	**0.5**	0.4	**0.1**	–
	0.8	0.8	**4.8**	4.6

17 Financial instruments

The Group has no financial assets or liabilities with a maturity date of greater than one year. There is no difference between the carrying value and the fair value of the Group's aggregate short-term financial assets and liabilities.

As at 30 June 2000, the Group has short-term financial assets and liabilities denominated in the following currencies:

	2000			1999		
	Financial assets £m	**Financial liabilities £m**	**Aggregate £m**	Financial assets £m	Financial liabilities £m	Aggregate £m
Cash and overdrafts						
Currency						
Sterling	**24.4**	**(3.1)**	**21.3**	38.3	(2.1)	36.2
US Dollar	**7.4**	**(4.3)**	**3.1**	2.5	(0.1)	2.4
Hong Kong Dollar	**13.3**	**(0.4)**	**12.9**	1.7	(0.3)	1.4
Other	**2.3**	**–**	**2.3**	1.7	–	1.7
	47.4	**(7.8)**	**39.6**	44.2	(2.5)	41.7

	Book value £m	Fair value £m
Forward rate contracts		
Euro (Eur 21.7m) forward sale	–	0.1

18 Share capital

The share capital of the Company comprises:

	2000 No	2000 £m	1999 No	1999 £m
Ordinary Shares of 1p each				
Authorised	**45,000,000**	**0.4**	45,000,000	0.4
Issued and fully paid	**33,446,741**	**0.3**	32,673,496	0.3

During the year 773,245 Ordinary Shares were issued at a total premium of £1.4m.
As at 30 June 2000 there were options outstanding to subscribe for Ordinary Shares as follows:

	No	Period exercisable	Option price
Sharesave	37,552	2000	170p
Sharesave	710,683	2003	250p
Performance related	694,104	1999-2006	170p
Performance related	12,000	2001-2008	250p
Performance related	96,331	2001-2008	189.5p

Long Term Incentive Plan

As explained in the directors' report on page 36, the Kier Group 1999 Long Term Incentive Plan was established during the year. The Kier Group 1999 Employee Benefit Trust has acquired 200,000 Ordinary Shares in Kier Group at a cost of £563,617. The market value of these shares as at 30 June 2000 was £542,000. The dividends on these shares have been waived. All of the above shares have been conditionally awarded to employees, subject to the Group achieving prescribed earnings per share growth targets. The cost of the Kier Group 1999 Long Term Incentive Plan is based on the book value of shares already purchased for the award and on the fair value at the date on which the award was made for the shares still to be purchased. This cost is recognised based on a reasonable expectation of the extent to which performance criteria will be met, and is accounted for over the three year period to which the performance targets relate.

19 Reserves

The movement on reserves is as follows:

Group	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Profit & loss £m
At 1 July 1999	9.4	–	2.7	21.1
Issue of shares	1.4	–	–	–
Profit for the year	–	–	–	13.1
Dividends	–	–	–	(3.5)
At 30 June 2000	**10.8**	**–**	**2.7**	**30.7**

Company	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Profit & loss £m
At 1 July 1999	9.4	1.2	2.7	9.1
Issue of shares	1.4	–	–	–
Premium on exercise of Sharesave options	–	–	–	(0.7)
Profit for the year	–	–	–	4.0
Dividends	–	–	–	(3.5)
At 30 June 2000	**10.8**	**1.2**	**2.7**	**8.9**

The cumulative amount charged to profit and loss reserve in respect of goodwill is £9.1m (1999: £9.1m).

20 Cash flow notes

Reconciliation of operating profit to operating cash flows

	2000 £m	1999 £m
Group operating profit	**15.2**	10.9
Depreciation charges	**7.8**	6.7
(Increase) in stocks	**(33.8)**	(29.2)
(Increase) in debtors	**(17.3)**	(30.2)
Increase in creditors	**36.7**	58.9
(Decrease)/increase in provisions	**(0.5)**	1.7
Net cash inflow from operating activities	**8.1**	18.8

Analysis of changes in net funds

	1 July 1999 £m	Movement £m	30 June 2000 £m
Cash at bank and in hand	32.4	(12.9)	**19.5**
Bank overdrafts	(2.5)	(5.3)	**(7.8)**
Short term bank deposits	11.7	16.2	**27.9**
Short term investment	0.6	0.2	**0.8**
	42.2	(1.8)	**40.4**

Net funds include £22.8m (1999: £5.2m) being the Group's share of cash and liquid resources held by joint arrangements. The fair value of the short term investment at 30 June 2000 was £1.3m.

21 Capital commitments

Group	2000 £m	1999 £m
Contracted for but not provided in the accounts	**1.3**	1.1

22 Transactions with related parties

Sales of goods and services to joint arrangements and joint ventures

	2000 £m	1999 £m
Construction services and materials	**29.5**	23.0
Staff and associated costs	**3.8**	2.1
Management services	**0.6**	0.6
Plant hire	**–**	0.1
	33.9	25.8

Amounts due from related parties was £2.4m (1999: £2.7m) from H DGH Limited and £1.1m (1999: £nil)from Kier Besix joint arrangement.

23 Contingent liabilities

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

Principal operating subsidiaries

Construction & Services

Kier Regional Limited	Kier London Kier Northern Kier Scotland Kier Southern Kier Western French Kier Anglia IEI Building Services Engineers Marriott Construction Moss Construction Moss Northern Wallis
Kier National Limited	Kier Construction Limited Kier Build Limited Kier International Limited
Kier Support Services	Caxton Facilities Management Limited FM Contract Services Limited

Homes & Property

Kier Residential Limited	Twigden Homes Limited Bellwinch Homes Limited Kier Homes Limited Kier Land Limited
Commercial Property	Kier Ventures Limited Kier Property Limited

Group Services and Project Investment

Kier Limited
Kier Project Investment Limited

NOTES:

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

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

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

Principal joint arrangements and joint ventures

Joint arrangements

Building and/or civil engineering construction

The following joint arrangements, in which the Group participation is between 43% and 63%, operate in England:

Kier/Hochtief	a joint arrangement between Kier Construction Limited and Hochtief (UK) Construction Ltd
Miller/Kier	a joint arrangement between The Miller Group Limited and Kier Construction Limited
Norwest/Kier/ Campenon Bernard	a joint arrangement between Norwest Holst Construction Limited, Kier Construction Limited and Campenon Bernard SGE
Kier/CHE	two joint arrangements between Kier Build Limited and Carillion Construction Limited (trading as Crown House Engineering)

The following joint arrangements, in which the Group participation is between 40% and 51%, operate overseas, in the territory indicated:

Hong Kong	
Kier/Sun Fook Kong	a joint arrangement between Kier Hong Kong Limited and Sun Fook Kong (Civil) Limited
Kier/Sun Fook Kong/ China Fujian	a joint arrangement between Kier Hong Kong Limited, Sun Fook Kong (Civil) Limited and China Fujian Corporation
Hyundai/Kier	a joint arrangement between Kier Hong Kong Limited and Hyundai Engineering & Construction Co Limited
Kier/Zen	a joint arrangment between Kier Hong Kong Limited and Zen Pacific Limited
India	
Besix/Kier	a joint arrangement between Kier International Limited and Besix SA
Suriname	
Kier/CCC	a joint arrangement between Kier International Limited and Commercial Contracting Company of San Antonio Inc
Barbados	
Kier/Why Dig	a joint arrangement between Kier International Limited and Why Dig Technologies Limited
Jamaica	
Kier/CCC	a joint arrangement between Kier International Limited and Commercial Contracting Company of San Antonio Inc
St Croix	
Kier/CCC	a joint arrangement between Kier International Limited and Commercial Contracting Company of San Antonio Inc
Romania	
Mivan/Kier	a joint arrangement between Kier International Limited and Mivan Limited
Commercial Property Development	The Group has a 25% participation in a joint arrangement in England between Kier Ventures Limited and Norwich Union Life and Pensions Limited.

Principal joint arrangements and joint ventures continued

Joint ventures	Interest held
Long term concession holding under the Private Finance Initiative	
H DGH Holdings Limited	50%
Baglan Moor Holdings Limited	25%
International construction and contract mining	
Incorporated and operating in the Hashemite Kingdom of Jordan	
The Jordan Economic Development and Trading Company Limited	50%
Commercial property development	
Kier Warth Limited	50%

NOTES:

i The terms 'joint arrangement' and 'joint venture' are defined by FRS 9. 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.

Financial record

Year ending 30 June	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover: Group and share of joint ventures	**1,034.8**	962.9	749.6	677.2	614.6
Group operating profit	**15.2**	10.9	7.5	6.9	5.1
Joint ventures – share of operating profit	**0.4**	1.7	0.8	–	–
Total net interest receivable	**1.3**	1.2	2.5	1.7	2.2
Other income	**0.8**	–	–	–	–
Profit before tax	**17.7**	13.8	10.8	8.6	7.3
Taxation	**(4.6)**	(3.9)	(3.6)	(2.9)	(2.6)
Profit after tax	**13.1**	9.9	7.2	5.7	4.7
Dividends	**(3.5)**	(3.0)	(2.6)	(1.7)	(0.8)
Retained profit for the year	**9.6**	6.9	4.6	4.0	3.9
Earnings per Ordinary Share					
– undiluted	**39.8p**	30.6p	22.7p	18.7p	16.1p
Dividend per Ordinary Share	**10.7p**	9.3p	8.0p	4.6p	1.6p

At 30 June	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Shareholders' funds	**44.5**	33.5	25.8	27.6	24.0
Assets per Ordinary Share	**133.1p**	102.5p	80.1p	87.2p	69.0p

Group principal businesses

Kier Regional
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

C R W Busby, Chairman
M P W Scarth, MD
R W Side, Deputy MD
S M Atkinson
P P J Cullen
M J Desmond
J S French
R J C Turner

Kier London
188 High Road
Loughton
Essex
IG10 1DH

R W Side, Chairman
G C Lindsey-Smith, MD
D R Avery
P J Everard
N W Meixner
C J Riley
J F Spray

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

M P W Scarth, Chairman
S Tilley, MD
M A Ashton
A J Avery
M J Brackstone
W Kay
P A Sloane

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

J S French, Chairman
G E Knowles
R A Moretti
J Prosper
B J Sheen
S B Tyson
P R Young

Kier Southern
Maple Lodge Close
Maple Cross
Rickmansworth
Herts
WD3 2SJ

J S French, Chairman
S M Atkinson,
Chairman Designate and MD
D M Brown
G C Burridge
P H Durigan
N Elliott
N A Meek
M Mintram
M W Orr
G D Willoughby
J D Yates

French Kier Anglia
53 South Brink
Wisbech
Cambridgeshire
PE14 0RA

R W Side, Chairman
J R Bradley, MD
R W Kidger
B J Painter
C J Riley
J C Simson

Marriott Construction
Marriott House
Rushden
Northamptonshire
NN10 6EA

R W Side, Chairman
R W Murphy, MD
G Clark
P Hawes
J S Henke
M M Rooke

Moss Northern
Yardley Road
Knowsley Industrial Park
Liverpool
L33 7ST

M P W Scarth, Chairman
L Wilkinson, MD
M A Ashton
D Jenkins
A Mills
P A Sloane

Moss Construction
96 Leckhampton Road
Cheltenham
Gloucestershire
GL53 0BP

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

Wallis
47 Homesdale Road
Bromley
Kent
BR2 9TN

R W Side, Chairman
M Wright, MD
R H Bush
A R Chilcott
J R Gilbert
F Hill
G J Mountier

Kier Scotland
Cathkin House
15 Woodside Terrace
Glasgow
G3 7XH

P P J Cullen, Chairman
A H Stewart, MD
R Abrahams
M A Ashton
J McMenamin

IEI Building Services Engineers
Greytown House
11-19 Wote Street
Basingstoke
Hampshire
RG21 7NE

J S French, Chairman
R P Manning, MD
D W Stiff

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

C Thomas, Chairman & MD
J J Cadwallader
J F Hill
C S Porton
M P W Scarth

FM Contract Services
Thames Road
Crayford
Kent
DA1 5QJ

W A Latto, Chairman
P Farnan, MD
P W Hayday
T P Knights
A J K McCarthy
M P W Scarth

Caxton Islington
Ashburton Grove
Holloway
London
N7 7AA

W A Latto, Chairman
D Angus, MD
J Nelson
T C Tatham
C Thomas

Kier National
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

C R W Busby, Chairman
J Dodds, MD
R Gorringe
R A Haller
D E Mattar
R V Sallis
G A Shennan

Kier International
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds, Chairman
G A Shennan, MD
D J Durey, Deputy MD
T G Elliott
N W Hammond
D Rainford
P J Staniland

Kier Build
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds, Chairman
R V Sallis, MD
J J Armitage
M Dobson
J H Fozzard
W G Merry
C Willats

Kier Construction
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds, Chairman
R A Haller, MD
A E Arnaud, MD Plant
M P Sheffield, MD Civils
G R Burn
P H Gray
B R Palmer
N A Pates
A W Saul
T W Tagg

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

C R W Busby, Chairman
D Homer, MD
D V Brand
K Dixon
R W Gregory
R P Page
W R Reid

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

D Homer, Chairman
K Dixon, MD
G D Baker
R W Gregory
J G Hodgetts
A E Page
A P Walkerdine

Bellwinch Homes
Malcolm House
Empire Way
Wembley
Middlesex
HA9 0LW

D Homer, Chairman
R P Page, MD
R W Gregory
D F Lomas
J McCormack
S J Whitehead

Kier Homes
Trojan House
Pegasus Avenue
Phoenix Business Park
Linwood Road
Paisley
PA1 2BH

D Homer Chairman
W R Reid MD
R W Gregory
D Cope
A Duffy

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

D Homer, Chairman
R W Gregory
I J Mitchell

Kier Ventures
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

C R W Busby, Chairman
R W Simkin, MD
J A J Byrne
I P Woods

Kier Engineering Services
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

C R W Busby, Chairman
R A Haller, MD
J Dodds
M P W Scarth

Kier Project Investment
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

C R W Busby, Chairman
C L Mitchell, MD
G Barnes
I P Woods
J A Young

Corporate information

Directors
C R W Busby FCA, Chairman
D V Brand MA FCA
J Dodds
D Homer
M P W Scarth MICE MCIOB
P F Berry CMG MA
P G Corbett CBE FCA
P T Warry MA LLB

D V Brand, Secretary

Headquarters and registered office
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Tempsford Hall
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London EC1N 2TH

Barclays Bank plc
54 Lombard Street
London EC3V 9EX

Registrars
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Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Stockbrokers
Deutsche Bank AG
1 Great Winchester Street
London EC2N 2EQ

Financial calendar

25 November 2000	Annual General Meeting
12 December 2000	Payment of final dividend for 1999/2000
March 2001	Announcement of results for the half year and interim dividend
May 2001	Payment of interim dividend
September 2001	Announcement of preliminary full year results and final dividend for 2000/01

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