Kier Group plc

annual report and accounts
for the year ended 30 June 2002

building a successful business












KIER GROUP

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In 2002, the tenth anniversary since the employee buy-out, Kier Group achieved further profit growth, generated substantial additional cash from operating activities and undertook further investment in Homes & Property.

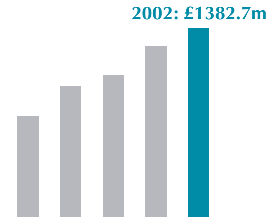
Contents

Financial statements

Turnover

£1,382.7m

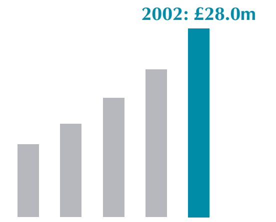
increase 10.5%



Profit before tax

£28.0m

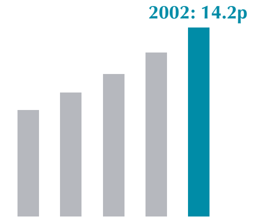
increase 27.9%



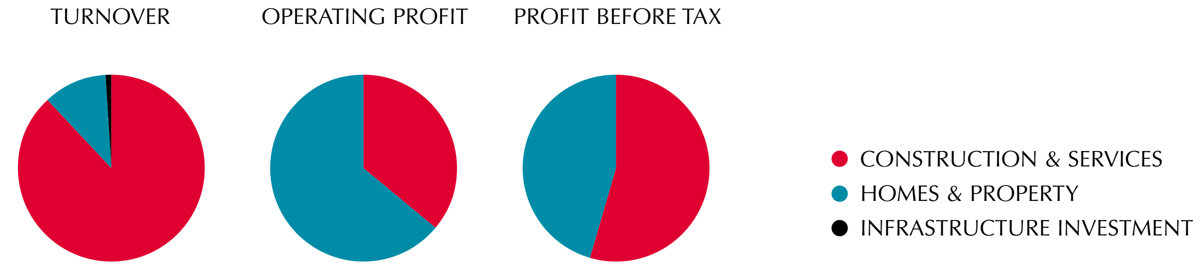
Dividends

14.2p

increase 15.4%



Contribution by operating sector to…



HIGHLIGHTS

- Growth continues for tenth successive year
- 25% compound annual growth in earnings per share over six years
- Operating profit up 23.0% to £26.2m (2001: £21.3m)
- Profit before tax at £28.0m up 27.9% (2001: £21.9m)
- Dividend increased by 15.4% to 14.2p (2001: 12.3p)
- Strong cash performance – £50.0m generated from operating activities
- Significant cash investment in acquisitions during the year

CONSTRUCTION & SERVICES

KIER REGIONAL

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

Turnover

£724.9m

FRENCH KIER ANGLIA
IEI BUILDING SERVICES
  ENGINEERS
KIER LONDON
KIER NORTHERN
KIER NORTH WEST
KIER SCOTLAND
KIER SOUTHERN
KIER WESTERN
MARRIOTT CONSTRUCTION
MOSS CONSTRUCTION
WALLIS

KIER NATIONAL

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

Turnover

£412.6m

KIER BUILD
  MAJOR BUILDING PROJECTS
KIER CONSTRUCTION
  CIVIL ENGINEERING
  MINING
KIER INTERNATIONAL
KIER PLANT

KIER SUPPORT SERVICES

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

Turnover

£80.9m

CAXTON INTEGRATED SERVICES
  BUILDING MAINTENANCE
  CONSULTING
  FM MANAGED SERVICES
  PFI SERVICE PROVISION

HOMES & PROPERTY

KIER RESIDENTIAL

High quality private housebuilding.

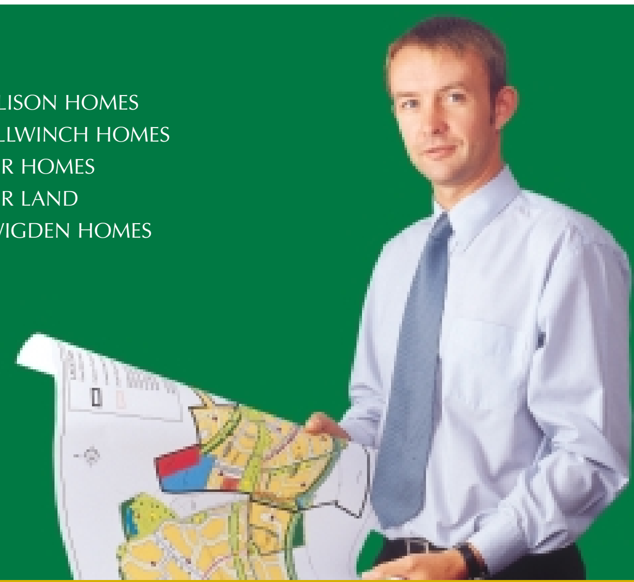
Turnover

£145.6m

New completions

877 homes

ALLISON HOMES
BELLWINCH HOMES
KIER HOMES
KIER LAND
TWIGDEN HOMES



KIER PROPERTY

Commercial property development.

Turnover

£13.2m

Total development area
(consented and in pipeline)

6m sq ft

KIER COMMERCIAL INVESTMENTS
KIER VENTURES
KIER DEVELOPMENTS (50%)

INFRASTRUCTURE INVESTMENT

KIER PROJECT INVESTMENT

Promotes and manages the Group's interest in the private finance initiative, creating concession holding businesses in healthcare, education and other local services.

Turnover

£5.5m

Committed investment

£10.6m

KIER PROJECT INVESTMENT
  ACADEMY SERVICES
  BAGLAN MOOR HEALTHCARE
  INFORMATION RESOURCES
    (BOURNEMOUTH)
  PROSPECT HEALTHCARE
    (HAIRMYRES)
  PROSPECT HEALTHCARE
    (READING)

EXECUTIVE DIRECTORS

COLIN BUSBY

Aged 58, has been chairman and chief executive since leading the employee buy-out 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.

DEENA MATTAR

Aged 37, was appointed to the Kier Group Board as an executive director in September 2001. Deena joined Kier in 1998 from KPMG where she developed an in-depth knowledge of construction. She held the role of finance director of Kier National, the Group's major building and civil engineering projects arm, until July 2001, and became Group finance director in November 2001.

DAVID HOMER

Aged 56, 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 and was appointed to the Board in 1996 with responsibility for residential development. He is now chairman of the four subsidiary housebuilding companies and strategic land company.

JOHN DODDS

Aged 57, 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 buy-out has been the director responsible for major projects, mining and international contracting. He is also responsible for the Group's infrastructure investment activities.

MARTIN SCARTH

Aged 59, joined the Group in 1962 and has held management positions in a number of the regional construction offices. A divisional director since 1988, he has since the buy-out been the director responsible for regional contracting and support services.

INDEPENDENT NON-EXECUTIVE DIRECTORS

PETER BERRY

Aged 58, 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 senior independent director, chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

PETER WARRY

Aged 53, is chairman of Victrex PLC and a non-executive director of BSS Group PLC and of the Office of the Rail Regulator. Previously he was an executive director of British Energy PLC and chief executive of its English generating company. He was appointed to the Board in 1998 and is a member of the Audit, Nomination and Remuneration Committees.

SIMON LEATHES

Aged 54, is vice chairman for support services at Barclays Capital, the investment banking division of Barclays PLC. He previously held senior appointments at Lend Lease Corporation, Hambros PLC and SG Warburg Group plc. He is chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

2002

Events to enhance future growth

Kier Plant bought Taylor Woodrow's UK tower crane hire business

The acquisition included 28 modern tower cranes and ancillary equipment which increased Kier Plant's tower crane fleet to 90. The transfer of 18 Taylor Woodrow employees has enabled Kier Plant to strengthen its plant hire team and build on its knowledge and experience.

Great Place to Work

Kier Group was voted into the Sunday Times' 'Great Place to Work' awards 2002 and is now classed as one of the best employers in Britain. The results were based on responses to questionnaires directed at Kier personnel randomly selected by the Sunday Times. In addition, employee benefits such as holidays, pensions, healthcare, share ownership and training opportunities were taken into account. Kier scored highly in respect of its long service record, its friendliness, openness and relaxed culture led from the top.

Acquisition of Allison Homes

The £27.5m acquisition of Allison Homes, a regional housebuilder operating in the eastern counties of England, significantly increased the coverage of the Group's existing homes division. With Spalding-based Allison Homes came an excellent holding of development land providing both short and long-term opportunities. The positive attitude and support of the Allison Homes team resulted in a smooth and successful integration with the Group.

Kier invests in Laing Property

In April, the Group, in joint venture with the Bank of Scotland, acquired Laing Property Developments in a deal worth £91.6m, representing the biggest acquisition Kier has ever been involved in. This significantly enhances Kier's property development interests providing good opportunities for the future.

United Utilities deal

Kier Construction teamed up with J Murphy & Sons and Interserve Project Services to form a joint venture, KMI Water. The joint venture won a £250m framework agreement to construct a variety of water infrastructure projects throughout West Lancashire and North Manchester for United Utilities over the next three years. This represents the largest, by value, of three framework agreements awarded by United Utilities. KMI Water will deliver over 100 projects, with capital values of up to £35m, covering a broad spectrum of water infrastructure works.

Construction Skills Certificate Scheme

In support of the Major Contractors Group Health & Safety Charter calling for a fully qualified site workforce, Kier Group introduced the Construction Skills Certificate Scheme (CSCS) on all its sites. Kier Group's aim is to train every one of its site workforce to qualify as a CSCS cardholder by the end of 2003. After this date, only CSCS cardholders will be allowed to work on Kier sites.

OVERVIEW

Kier Group plc has once again produced excellent results for the year, extending our record of 25% compound growth in earnings per share in the six years since flotation on the London Stock Exchange. Our proven strategy of investing the cash generated by our construction operation into the higher margin, cash consuming, homes and property operations has driven this growth enabling us to record our tenth successive increase in profit since the Group's formation in 1992.

"Prospects for further growth in all our markets are encouraging and I believe that Kier is well positioned to deliver further improved performance..."

We have had a busy year which included a number of corporate acquisitions, predominantly within the homes and property operations. In total we have invested over £44m in new acquisitions all funded by internal resources supported by the exceptional cash performance from the construction operation. Our £27.5m investment in Allison Homes is producing good returns. The business has integrated well with the homes operation and has made a pleasing contribution in the nine and a half months since acquisition. The acquisition of Laing Property Developments through joint venture, in which our investment is £15.8m, significantly bolsters our property operation and is a sound investment for the future.

The integrated business, which has evolved since our employee buy-out in 1992, continues to move forward both through organic growth and acquisition. We remain strongly committed to our newer areas of Support Services and Infrastructure Investment. The market for Support Services, in particular, is a significant one, offering exciting opportunities to strengthen the business over the next few years.

FINANCIAL PERFORMANCE

A strong financial performance was achieved across all reporting segments. Overall operating profits rose 23.0% to £26.2m (2001: £21.3m) on turnover up 10.5% at £1,382.7m (2001: £1,251.1m). Profit before tax (after crediting profit on disposal of an interest in a subsidiary of £0.7m) increased by 27.9% to £28.0m (2001: £21.9m) and, on the same basis, earnings per share at 60.4p rose 25.8% (2001: 48.0p).

We are proposing a final dividend on the Ordinary Shares of 9.7p (2001: 8.4p) making 14.2p for the year, an increase of 15.4% on 2001's 12.3p. The dividend will be paid on 10 December 2002 to those on the register on 4 October 2002 and there will be a scrip alternative.

Cash and liquid assets at 30 June 2002 were £46.4m (2001: £58.1m), an outflow of only £11.7m despite the substantial cash investment in acquisitions during the year. Within Construction the cash flow was again very strong with an inflow of £40m achieved during the year. Shareholders' funds increased by £16.7m to £74.5m (2001: £57.8m). Pre-tax return on shareholders' funds was 42.3% having exceeded 40% for five consecutive years.

CONSTRUCTION & SERVICES

RESULTS

Construction & Services recorded an operating profit of £12.5m (2001: £11.1m), an increase of 12.6% on turnover of £1,218.4m (2001: £1,121.3m), up 8.7%. The operating margin of 1.03% continues to grow in line with our objective of further margin improvement.

Overall the proportion of negotiated and partnered awards has increased to 58% (2001: 51%) and in Kier National, the major projects division, the proportion was over 90%. This is an increase on last year within Kier National as a consequence of the continued drive to improve the risk profile through greater selectivity.

CONSTRUCTION

Kier Regional has had a year of consolidation with turnover remaining relatively flat at £724.9m (2001: £732.4m) following a period of rapid growth in the prior year. Cash generation has been excellent during the year reflecting improvements in margins and a strong underlying performance. This business, operating through 27 offices throughout the UK, has the widest coverage of any regional contracting business and, due to its localised nature, has the flexibility to react quickly to the requirements of its market places. This is evidenced by our move towards public sector work, which has increased, from 18% of awards in 2001 to 24% of new awards in 2002. With an order book of £359m and a strong pipeline of opportunities, we expect further growth in the next financial year.

In Kier National, our major projects division, turnover increased by 25.4% to £412.6m, largely within the building company, Kier Build, which recorded a significant increase in the last twelve months. The market for major building has remained strong during the year enabling us to be selective with all new contracts being awarded on a negotiated or partnered basis. Kier Construction, our civil engineering, rail and mining business, made good progress on its two major contracts on the Channel Tunnel Rail Link in North London. It also secured a £250m framework contract for United Utilities in a one-third joint venture.

Whilst the overall construction operating profit shows a healthy increase, the margin recorded in the UK has reduced this year. Firstly the Mining division, which is working out our last contract coal-mining project, has encountered unexpected ground conditions requiring a loss provision this year and secondly there has been a higher proportion than normal of long-term contracts that are not yet eligible for profit attribution under our accounting policies.

Our overseas business, which is managed in the UK as part of Kier National, performed well during the year. In the previous three years the business recorded operating losses as difficulties arose on contracts that had, in the past, been competitively tendered. The prudence applied in assessing these contract outturns, coupled with the strategy to improve the risk profile by taking on only negotiated work, has provided an excellent result for the year. The lower risk strategy will result in a more focused overseas business with a lower, but solid, contribution in the future. In accordance with this strategy 51% of our investment in Kier Hong Kong was sold during the year realising a profit of £0.7m.

SUPPORT SERVICES

Our support services business, under the banner of Caxton Integrated Services, operates through three business streams: managed services for occupiers of commercial and industrial premises; services to PFI and PPP projects; and large scale building maintenance contracts for local authorities and other social landlords. In line with our strategy to grow the business we were awarded our second building maintenance contract under the Government's 'best value' programme for £20m over five years for the London Borough of Greenwich. We are also pleased to have been selected as one of two bidders on a similar, but larger, contract in Sheffield. Costs of £1.1m (2001: £1.0m) associated with bidding for these contracts have been included in Corporate Overhead in these results. Our short-term target remains to increase turnover in this division to £150m per annum.

HOMES & PROPERTY

RESULTS

This segment recorded a 37.0% increase in operating profit at £22.2m (2001: £16.2m) on turnover up 25.9% to £158.8m (2001: £126.1m).

KIER RESIDENTIAL

The strong demand for housing, which has continued over the twelve months to 30 June 2002, together with the effect of the acquisition of Allison Homes in September 2001, provided Kier Residential with a 31.9% increase in house sales to £145.6m (2001: £110.4m). This arose from a 19.6% increase in unit sales to 877 (2001: 733) at increased average selling prices (£166,100 in 2002 compared with £150,500 in 2001). The operating margin improved to 14.0% from 13.0% in 2001. The forward order book at 30 June 2002 was 170% ahead of the previous year at £54m (on a like-for-like basis excluding Allison it was twice that of the previous year).

Allison Homes has made a good contribution to the results for the year, confirming our view of the quality of the business, and it has a good spread of sites in the eastern counties of England and a sound strategic land bank. A further £56.7m was invested in land across the operating areas during the year contributing to the increase in plots owned and controlled at the year-end to 3,814 (2001 excluding Allison: 2,353 plots). This represents a four year land bank which is appropriate given the planning issues that still plague the industry. The business continues to derive significant benefits from its strategic land bank, which stood at 11,000 plots at 30 June 2002.

KIER PROPERTY

In April 2002 we announced a £15.8m investment in a 50% joint venture with the Bank of Scotland that acquired the shares in Laing Property Developments. The joint venture, Kier Developments, consists of a portfolio of 23 opportunities at various stages of development. Due to the timing of some of these developments the investment has not had a material impact on the results for the year. The investment is treated as a joint venture in our accounts with the joint venture borrowings (£59.6m) being non-recourse to Kier. We are delighted with the opportunities that this investment has already afforded us, including one of the largest deals secured along the M3 this year with BAE Systems Electronics in Frimley, and we look forward to exciting returns in the future.

Following our investment in Laing Property Developments our commercial property business was reorganised under the banner of Kier Property and now comprises Kier Ventures, our wholly owned property business, and our share of Kier Developments.

Within Kier Ventures we sold an office in Cheltenham, pre-let to Marlborough Stirling, for £11.2m in January 2002. In August 2002 our joint venture with Norwich Union at Waltham Abbey completed the 700,000sq ft distribution facility for J Sainsbury alongside the M25. At Whitehall we have signed, subject to planning, a development contract with the Crown Estate for a 125,000sq ft office development pre-let to the Department for Environment, Food and Rural Affairs which will be constructed by Kier Build.

INFRASTRUCTURE INVESTMENT

In October we were pleased to announce the award of our first schools project, the latest project to be included in our portfolio of PFI projects, which now comprises five schemes. Two of the projects are now operational, Hairmyres Hospital and Bournemouth Library, with two further hospitals under construction, Neath Port Talbot and West Berkshire Mental Health Unit, as well as the Tendring Schools project. We are also preferred bidder on Greenwich Care Homes. Our total committed investment to these projects is £10.6m with an expected long-term average yield in excess of 15%. Our pipeline of projects, including a number of hospitals, should further expand our portfolio.

PFI remains an important element of our business and one in which we continue to invest with overhead and bidding costs of £1.2m charged in the results to 30 June 2002 (2001: £0.8m). However we remain concerned about the timing and costs of bidding for these projects. A major overhaul of the bidding process is required without which the number of projects we are prepared to bid will be curtailed.

"I wish to pay tribute to all Kier employees for their unstinting efforts in contributing to the continued success of the Group…"

KIER PEOPLE

Our successful track record is the tangible result of the skill, vision, creativity, professionalism and commitment of our outstanding people. They have ensured that we have achieved consistent growth in turnover, profits and cash flow and that we continue to excel in every one of our chosen markets. I wish to pay tribute to all Kier employees for their unstinting efforts in contributing to the continued success of the Group.

Creating and sustaining an inspiring work environment that demands integrity and stimulates entrepreneurial spirit together with a deep sense of responsibility to the business and its stakeholders is an important objective for us. We continue to recruit the best from universities each year and our training department is continually reviewing its range of internal courses with the aim of developing the entire workforce to be best in class.

ACCOUNTING AND REPORTING

There has been a great deal of mistrust of corporate accounting this year. In Kier we have a very straightforward approach to accounting and reporting. Our accounting policies are rigorously applied and we endeavour to be transparent in all our dealings with stakeholders. This approach is encouraged throughout the business and is fundamental to the Kier culture. Our focus has always been to ensure that cash underpins our reported performance.

The publication by the Urgent Issues Task Force of Abstract 34 'Pre-contract Costs' has caused unease amongst followers of those involved in PFI. As a consequence of the way in which external bidding costs have been dealt with in our accounts in the past, the effect of the adoption of UITF 34 on the Group's results for the year ended 30 June 2002 is not significant and no adjustment has been required to prior year results.

HEALTH & SAFETY

Kier is totally committed to improving safety standards, an ethos that is driven from the highest level in our organisation. Throughout the year we have actively pursued the health and safety targets set by the Major Contractors' Group and we have re-enforced health and safety awareness across the Group and throughout our supply chain.

The Group's Accident Incidence Rate (AIR) for the year to 30 June 2002 was 699 per 100,000 employees including subcontractors. This compares favourably with the industry average AIR of 1,221 for the same period.

PROSPECTS

Our order books in Construction & Services have been maintained at around £1.2bn. In Homes we commenced the new year with our strongest ever forward sales position and reservations have continued at a healthy rate subsequently. Our development property portfolio contains excellent opportunities that should provide good returns in the future.

Despite global economic uncertainties the markets for Construction & Services and Homes & Property are still growing. In Construction the market continues to offer selective opportunities with any potential downturn in the private sector being supported by ambitious public sector spending plans ensuring continuing demand. The market for local authority outsourcing contracts is extensive, supporting our expansion plans for Support Services. In housing the ongoing shortage of new homes ensures that demand outstrips supply but we believe that the market will return to more sustainable levels over the next twelve months with the rate of growth of selling prices likely to reduce. This is a development we would welcome in order to provide a more stable market for housing.

Prospects for further growth in all our markets are encouraging and I believe that Kier is well positioned to deliver further improved performance.

Colin Busby
Chairman

ACQUISITIONS, INVESTMENTS AND DISPOSALS

During the year the Group invested over £44.0m in acquisitions and investments, all for asset value.

On 12 September 2001, Kier Group plc announced the acquisition of Allison Homes. The consideration, payable wholly in cash, was £18.0m representing the value of net assets acquired. In addition we assumed bank overdrafts of £9.5m. To date £15.8m has been paid with the balance of £2.2m due in three instalments by April 2003. In the nine and a half months since acquisition, Allison Homes contributed £25.0m to turnover and £4.1m to operating profit.

On 5 October 2001 the Group invested £0.4m in equity to acquire 49% of the shares in Belan Limited together with £2.1m of subordinated loan stock. Belan Limited is an employee buy-out vehicle which acquired the partnership housing and timber frame business of Beazer Group Plc. In its first nine months of trading the business made no operating profit and incurred interest charges of which the Group's share was £0.2m.

On 12 April 2002 the Group and the Bank of Scotland each invested £15.8m of loan stock and contributed 50% of the equity (£1,000) to form a new joint venture company Kier Developments Limited. The company was formed to acquire the shares in Laing Property Developments Limited and additional properties held by Laing Group, together with the Bank of Scotland's interest in a 50/50 joint venture with Laing Property Developments. The Bank of Scotland has provided borrowing facilities of £76.0m of which £59.6m was drawn down at the date of acquisition. The facilities are non-recourse to Kier. The effect of the investment in the joint venture on the results for the year ended 30 June 2002 was neutral.

On 12 March 2002 Kier International Limited sold 51% of its investment in Kier Hong Kong Limited realising a profit on sale of £0.7m.

TURNOVER, ORDERS AND LAND BANK

The Group turnover, including share of joint ventures, increased by 10.5% to £1.38bn due to growth in all business segments.

The Construction & Services segment increased by 8.7% to £1.2bn. Within this segment Kier Regional's turnover of £724.9m was broadly in line with last year reflecting a planned stabilising of growth for the year. Kier National's turnover of £412.6m grew by 25.4% largely as a result of an increase in major building projects. Support Services' turnover of £80.9m rose by 35.3% largely as a consequence of the contribution made by a full year of inclusion of the ten year 'best value' contract for the London Borough of Islington.

Order intake was strong across the segment with 58% of awards on a partnered or negotiated basis (2001: 51%). At 30 June 2002 confirmed orders in hand stood at £1.2bn having being maintained at around this level for the previous 12 months. In addition to this there have been strong orders since June and a healthy pipeline of awards is awaiting confirmation.

Turnover in Homes & Property increased by 25.9% to £158.8m as a consequence of organic growth in Residential property enhanced by the contribution from Allison Homes. Kier Residential's turnover of £145.6m was 31.9% ahead of last year based on an increase in the number of unit sales to 877 (2001: 733) and higher average selling prices of £166,100 (2001: £150,500). In addition to that acquired with Allison Homes, a further £56.7m was invested in land bringing the total land bank to 3,814 plots owned with planning consent (2001: 2,353 plots) at an average price of £42,200 (2001: £39,600). In addition there are approximately 11,000 strategic plots in the land bank. Forward orders and completions at the end of August are substantially ahead of last year indicating sales growth in 2003.

In Kier Property, turnover of £13.2m (2001: £15.7m) was achieved on the sale of a development.

Infrastructure Investment turnover of £5.5m (2001: £3.7m) relates to our share of joint venture turnover arising in connection with Hairmyres Hospital, Bournemouth Library (which became operational this year) and Tendring Schools.

OPERATING PROFIT, MARGINS AND RETURNS ON CAPITAL

Group operating profit, including share of joint ventures, was £26.2m, up 23.0% on last year's profit of £21.3m.

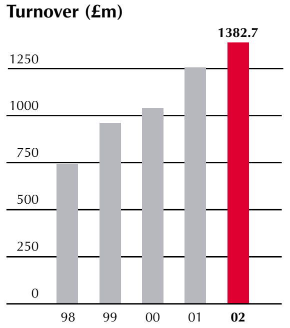
In Construction & Services a 12.6% increase was achieved at £12.5m (2001: £11.1m). The margin on turnover was 1%, in line with the previous year. Within the overall operating profit, the overseas contribution increased to £6.3m from a loss of £0.9m in the previous year and the UK contribution reduced to £6.2m from £12.0m in the previous year. This switch in contribution occurred within Kier National where the strong overseas performance has been offset by certain events in the UK. The overseas performance is a result of prudence applied in assessing contract outturns in the past, coupled with a stronger underlying performance resulting from the strategy adopted some years ago to reduce the risk within the business. In the UK the Mining division, which is working out our last contract coal-mining project, has encountered unexpected ground conditions requiring a loss provision for the year. In addition the UK margin has been affected by the fact that there has been a high proportion of long-term contracts that are not eligible for profit attribution under our accounting policies.

Homes & Property contributed operating profit of £22.2m (2001: £16.2m) an increase of 37.0%. Kier Residential's operating margin rose to 14.0% from 13.0% last year and in Kier Property it was 13.6% (2001: 11.5%). In Residential return on average capital employed increased to 16.7% from 15.0% last year.

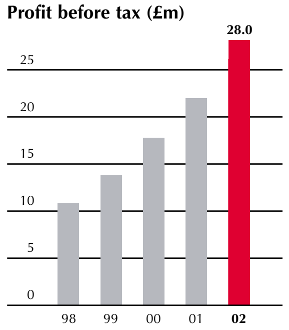
Infrastructure Investment made an operating loss of £0.6m (2001: loss of £0.5m) after charging bidding and overhead costs associated with our central PFI team of £1.2m (2001: £0.8m).

Centre costs of £7.9m (2001: £5.5m) include net costs of bidding and promoting 'best value' contracts of £1.1m (2001: £1.0m), a provision for the estimated costs of the Long-Term Incentive Plans of £1.9m (2001: £1.3m) and costs associated with acquisitions during the year.

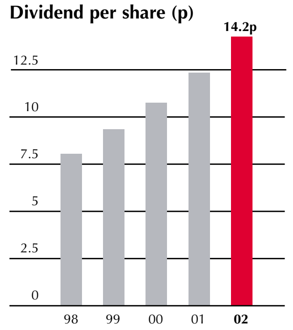
Turnover (£m)



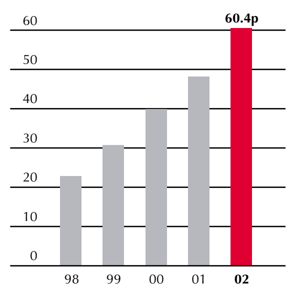
Profit before tax (£m)



Dividend per share (p)



Earnings per share (p)



PROFIT BEFORE TAX, TAXATION AND PROFIT AFTER TAX

Profit before tax of £28.0m was 27.9% ahead of last year's £21.9m. It included the profit from a partial disposal of an investment in a subsidiary of £0.7m and, on a like-for-like basis excluding this profit, growth in profit before tax is 24.7%.

The tax charge for the year of £7.7m has benefited from brought forward trading and capital losses and represents an effective rate of 27.5% which is below the full UK Corporation Tax rate of 30%. We expect the effective rate to remain below the UK Corporation Tax rate for several years.

Profit after tax at £20.3m is 26.9% above 2001's £16.0m.

ACCOUNTING CHANGES

FRS 19 'Deferred Tax' and UITF 34 'Pre-contract Costs' have been adopted for the first time in these financial statements. Neither has had a significant effect on the results for 2002 and no restatement of the 2001 results is required.

There has been a change in the method adopted by a PFI special purpose vehicle in accounting for PFI assets. Previously the assets held by the special purpose vehicle were accounted for as fixed assets. The treatment has, more appropriately, been changed to the contract debtor method of accounting. The effect of this, overall, on the Group results is nil. However the presentation of the results has changed such that the operating result from PFI joint ventures and the interest payable by PFI joint ventures have reduced. The presentation of the results for 2001 has been changed to reflect this: 'Share of operating profit – joint ventures' and 'Net interest payable – joint ventures' have each been reduced by £0.6m.

DIVIDEND

The proposed final dividend of 9.7p (2001: 8.4p) makes 14.2p (2001: 12.3p) for the year, an increase of 15.4%; the fifth year in succession that the dividend has increased by 15% or more. The dividend is 4.3 times covered by earnings.

SHAREHOLDERS' FUNDS AND SHARE CAPITAL

Shareholders' funds have increased by £16.7m to £74.5m (2001: £57.8m) arising from retained profit of £15.5m, currency translation of £(0.5)m and the proceeds of the issue of 505,633 new shares. Of the new shares 231,751 were issued in lieu of dividends and the remainder to satisfy options maturing under the 1997 Sharesave and the Performance Related Option Scheme.

EARNINGS PER SHARE

Basic earnings per share (undiluted) of 60.4p represents a 25.8% increase on 2001 and continues the 25% compound growth in earnings since Kier's flotation in 1996. Earnings per share adjusted to exclude the profit on the disposal of interest in subsidiary is 21.5% above that for 2001.

CASH FLOW, FACILITIES AND FOREIGN CURRENCY EXPOSURE

Net cash inflow from operating activities was £50.0m (2001: £38.5m). £44.0m (net) was spent on new acquisitions and investments during the year (2001: £4.4m), £9.4m (net) was spent on the purchase of tangible fixed assets including a tower crane fleet (2001: £10.7m) and, after the receipt of returns on investment and payments of tax and dividends, there was an overall outflow of £11.7m (2001: inflow of £17.7m).

The Group's liquid position is affected by seasonal, monthly and contract specific cycles, particularly in connection with the large contracts undertaken by Kier National. The net balance at 30 June 2002 of £46.4m (2001: £58.1m) represents a higher than average month end balance and includes £18.7m (2001: £23.3m) of cash held by joint arrangements which is not generally available for Group purposes. Following the significant level of cash invested in new acquisitions during the year the free cash available to the Group is expected to reduce over the next 12 months.

To deal with cyclical cash movements the Group maintains a range of bank facilities which were increased during the year from £50m to £75m. This represents £15m of overdraft facilities and £60m of committed revolving credit facilities, all on an unsecured basis.

There are foreign currency risks arising from 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.

PENSIONS

The Accounting Standards Board has published an Exposure Draft of an amendment to FRS 17 'Retirement Benefits' deferring the mandatory requirement for its full adoption. These financial statements reflect the second year transitional provisions of FRS 17. The pension charge has been calculated in accordance with SSAP 24 and, as in previous years, it corresponds to the contributions paid by the Group during the year. Had FRS 17 been adopted in full, the charge to the profits for the year would have been reduced.

Under FRS 17 calculations there is a deficit in the Pension Scheme. However, an analysis of anticipated contribution and income receipts and benefit payments indicates that the Scheme is likely to enjoy positive net cash flows for the next ten years.

The Group has reviewed its strategy for providing pensions benefits to all its employees. As a result of this review the final salary section of the pension scheme was closed to new entrants on 1 January 2002 and a defined contribution arrangement is now offered. The new arrangement is not expected to reduce the costs of pension provision but to provide more certainty over future pension costs than is possible with a defined benefit scheme.

Deena Mattar

Deena Mattar
Finance Director

Kier Regional

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

Performance

- Turnover relatively flat, partially as a consequence of the events of 11 September, reflecting a year of consolidation after successive years of growth
- Excellent cash generation
- Increase in public sector work to 24% of new awards

The future

- Develop the Regional network organically and, where appropriate, by acquisition
- Increase commitment to public sector projects and initiatives
- Increase profitability by further refinement of the supply chain process
- Maintain focus on cash generation
- Further develop key account portfolio through partnering and customer service initiatives
- Continue to train and develop our staff to assist them to reach their full potential
- Continue to improve safety performance and increase efforts to meet MCG targets to employ a fully qualified site workforce
- Build on healthy order book with strong pipeline of opportunities

Turnover

£724.9m

"Brazier Construction [part of Kier Regional] performed extremely well on this major building project. As contractors, they are flexible, co-operative and accommodating to the needs of the customer. Quality of workmanship is very good, organisation is excellent and schedules are maintained. Brazier is strongly recommended as an exemplar for the industry."

Malcolm Jacobs, Acting Principal
Weymouth College

Case study
Weymouth College

Client	Weymouth College
Value	£12m
Sector	Education
Company	Brazier Construction

Construction manager Shane Mason has been with the Group for 15 years and has managed a variety of building projects for Kier Southern, Henry Jones and Brazier Construction in and around the south of England.

This design & build contract, to build a new sixth form college in Weymouth, began in September 2000 for the purpose of bringing together two separate college sites, which were two miles apart, to form one large campus.

Brazier and sister company Bellwinch Homes worked in close collaboration with Weymouth College to ensure that funding arrangements from Further Education Funding Council grants, capital budget expenditure and the proceeds from a land sale to Bellwinch were reinvested in order to provide facilities for its new college.

The proposed scheme was too expensive, so we worked with the College to reduce the overall cost by value engineering.

Work at the Cranfield Avenue campus comprised construction of four major blocks and a day nursery, major refurbishment to three existing blocks, together with significant external works including a sports field and large car park. Kier Group's specialist building services engineering arm IEI designed and installed the mechanical and electrical services. Once the college moved into its new accommodation, Bellwinch began development of new apartments and houses at the former college site at Newstead Road.

All construction work took place while the 1,400 full time and 7,000 part time students were still studying at the College. The major elements of work were scheduled to fit in with college holidays to avoid disrupting the students and staff.

Kier Regional

LEFT Adderley School, Birmingham. Moss Construction.

RIGHT A high quality commercial development in the Strand for City & West End Developments. Kier London.

KIER LONDON
LOUGHTON, TOTTENHAM
The 700,000sq ft distribution centre for J Sainsbury at Waltham Point was completed early and further works are anticipated. Negotiated work and partnering continue to provide substantial turnover particularly from food retailers. An extension to Tesco's Cheshunt store was successfully completed and a new store in Beckton has been handed over ahead of programme. The commercial sector has provided negotiated works in the City and the West End with projects in Fenchurch Street, the Strand and Holborn. The team established to focus upon the social housing market was rewarded with partnering contracts for the London Borough of Islington to refurbish four further phases of the Marquess Estate, the refurbishment of street properties for Westminster City Homes and the refurbishment of Horn & Middle Park Estates for the London Borough of Greenwich.

KIER NORTHERN
BOSTON SPA, DURHAM, CARLISLE
Both private and public sector partnering projects have featured strongly during another successful year. Projects completed in the year include a new £13m 123-bedroom hotel at Thorpe Park, Leeds for Shire Hotels, a £4m retail development in Newcastle-upon-Tyne and two food stores for Lidl UK in Middlesbrough and Bolden, Tyne & Wear. Projects currently under way include a new £9m manufacturing facility for Kimberly-Clark at Barton-upon-Humber and Phase 3 of the Birstall Retail Park for Pillar Properties with the next phase currently under negotiation. City Centre residential developments are progressing for New Elvet Developments in Durham and for Bellway Homes at Stonegate, York. Partnering projects in the public sector include work at six schools for Doncaster Metropolitan Borough Council and major alterations to Castledyke School for North Lincolnshire Council.

KIER NORTH WEST
LIVERPOOL, MANCHESTER
A strong presence in the Merseyside construction market was supported by an increase in profile across Greater Manchester. An emphasis on partnering has led to substantial levels of negotiated and repeat order business with further work for Morrisons Supermarkets including a new superstore at St Helens and a major store refurbishment and extension at Hyde in Greater Manchester. Other retail projects carried out include the extension of a Sainsbury's Superstore at Wrexham and further work for Pillar on the Mersey Retail Park, Speke. At Birchwood Park, Warrington, three commercial projects have been undertaken and the fast track fit out of Inland Revenue offices in Liverpool for Mapeley has just finished. Education projects include St Wilfrid's High School in Blackburn and a new sports hall for Belvedere School, Liverpool as well as the new School of Management for the University of Liverpool.

KIER SCOTLAND
GLASGOW
The public sector provided the majority of awards during the year with education and health projects featuring strongly. The construction of new primary schools for North Lanarkshire Council and North Ayrshire Council at Cumbernauld and Irvine, a swimming pool for West Lothian Council, new offices for East Renfrewshire Council at Barrhead and a £4m acute admissions unit for Renfrewshire and Inverclyde Primary Care NHS Trust show the diversity of public sector clients. Commercial projects currently under construction include a £5m retail unit for B&Q at Coatbridge, Lanarkshire and a £4m production unit at Gourock.

KIER SOUTHERN
MAPLE CROSS, HAVANT (HENRY JONES), SOUTHAMPTON (BRAZIER CONSTRUCTION & KIER PARTNERSHIP)
The commercial and retail sectors continued to prove successful for the Maple Cross operation, with the completion of the £11m Zammat building for Welbeck Land at Rickmansworth and projects undertaken for Tesco, Morrisons and Waitrose. Recent awards include a £16m residential development at Great Dover Street, London for Bellway Homes, further strengthening the established relationship with this client. During the year Henry Jones successfully completed the £10m Bournemouth Library PFI scheme and further consolidated its presence within the defence sector by completing a new training facility at HMS Collingwood. Brazier Construction completed the £12m Weymouth College project in Dorset and a £4m cancer sciences facility at Southampton General Hospital. Brazier's partnering relationship with Hampshire County Council continues to flourish with the negotiation of a £3m visitors centre at Hilliers Arboretum, Romsey and a new performing arts centre at Thornden School, Chandlers Ford. Kier Partnership further established itself within the social housing sector through the formation of strategic partnering relationships with a number of major housing associations including Thames Valley Housing Association in the London Boroughs and Raglan Housing Association along the south coast.

KIER WESTERN
BRISTOL, PLYMOUTH, NEWPORT, TRURO
Kier Western's strong position in the retail sector was further reinforced with major extension and refurbishment projects for Sainsbury's Supermarkets Limited at Torquay, Bridgwater, Cardiff, Bristol and Weston-Super-Mare. The city centre development at Lemon Quay in Truro for JS Developments was handed over in March 2002. The business has also emerged as a significant player in the expanding education sector throughout the West Country, negotiating the construction of a new chemistry teaching building for the University of Bath, completing a new lecture theatre and

LEFT £1.2m fit out of restaurant and bar, Claridges Hotel. Wallis Interiors.

RIGHT £23.5m sales and marketing headquarters for AstraZeneca, Luton. Marriott Construction.

RIGHT Birstall Retail Park, Leeds. Phase III of this £12.8m project is currently under way. Kier Northern.

resource centre at the University of Wales and a new centre for Islamic studies at Exeter University. Following Vosper Thornycroft's successful PFI bid for the provision and maintenance of training facilities for the Avon Somerset and Gloucestershire Fire Service, Kier Western was appointed as construction partner for the £6m scheme. The Newport office, through its partnering approach with local education authorities, has been awarded new build and expansion schemes for six schools throughout South Wales. The strong association with Defence Estates has been consolidated with projects at HM Naval Base, Devonport and a new hangar for Merlin Helicopters at RNAS Culdrose.

FRENCH KIER ANGLIA
WISBECH, WITHAM, NORWICH, CAMBRIDGE
French Kier Anglia's strong presence in the defence sector continues, with ongoing works for USAF at RAF Mildenhall and Lakenheath and for the Defence Housing Executive. Other long-term clients include Basildon & Thurrock General Hospitals NHS Trust, Great Yarmouth Borough Council, the University of Cambridge, Cambridgeshire County Council, the University of East Anglia and Magnox Electric PLC. Projects in progress include the construction, extension and adaptation of 12 schools in the Tendring area of Essex under a Kier PFI arrangement, the construction of 18 luxury apartments for Fairclough Homes in Chigwell, Essex and a £3m contract for a new school of medicine at the University of East Anglia.

IEI BUILDING SERVICES ENGINEERS
BASINGSTOKE
Growth has been achieved in both areas of IEI's operations – the design and installation of mechanical & electrical services and maintenance. During the year Brixton Plc, Land Securities and City & West End Developments were added to its impressive commercial client base. A new district hospital at Sheppey, laboratories for Henry Wellcome at Oxford and a PFI funded library in Bournemouth, reflect the successful targeting of new markets. Building on the success of the Sussex Police contract, IEI's Service and Maintenance division is now partnering with Johnson Controls to maintain facilities for BAE, AON and for clients in the IT sector.

MARRIOTT CONSTRUCTION
RUSHDEN, NOTTINGHAM
A varied workload across all sectors has been secured during the year with the emphasis on public sector works providing increased opportunities, particularly from higher education sources. Projects include an £8m student accommodation and auditorium project for Fitzwilliam College, Cambridge, together with contracts for Cranfield, Nottingham and Leicester Universities. Major contracts successfully completed during the year include AstraZeneca's new sales and marketing headquarters building at Capability Green, Luton and a call centre upgrading and fit out project at Adderbury for Vodafone. Recent awards include a football academy for Derby County Football Club and a new hangar and offices for Signature Flight Support at London Luton Airport.

MOSS CONSTRUCTION
CHELTENHAM, BIRMINGHAM, NEWBURY
Negotiated contracts have once again provided the core workload for Moss. The long-standing relationship with Arlington continues with the completion of four further buildings at the Oxford Business Park. The long-term relationships with Oxford, Swindon and Gloucester Co-operative Society, Sainsbury's Supermarkets Limited and Zurich have also provided several successful projects. The Birmingham market remains buoyant with projects secured in the commercial and education sectors, including a £9m office development for Scottish Widows and a further partnered education project for Birmingham City Council. Following the recent completion of a number of projects for MEPC a further scheme to extend an existing health club and convert a warehouse to provide sports facilities and a new swimming pool has been secured. Health sector projects include the recently completed Oxford Institute of Musculoskeletal Sciences building providing research and teaching facilities for Oxford University and NHS clinicians.

WALLIS
BROMLEY, MAIDSTONE, CRAWLEY (LONGLEY)
Wallis achieved record turnover through a broad range of work completed throughout its operating area. The Bromley office successfully expanded the number of high quality refurbishment and fit out projects undertaken throughout Greater London. Projects carried out during the year include a major design and build refurbishment at the Rolls Estate providing a library for Kings College, the refurbishment of 25 Southampton Buildings for City and General (Holborn) Limited together with the fitting out of a nine-storey office building for Land Securities. Wallis Interiors undertook significant contracts for De Vere at the Cavendish Hotel and for the international fashion house Jil Sander and has commenced a major refurbishment for Asprey's of Bond Street. At the Maidstone office, the close working relationship with key clients Tesco and Pillar provided a substantial base workload. Other projects include a new district hospital on the Isle of Sheppey and new offices at a flagship development in West Malling. During the year the Longley office undertook projects at a number of schools including a new sixth form residential block at Worth School, West Sussex and a sports hall at Warden Park School, Cuckfield. Current projects include a new £8m swimming pool and leisure centre at Thornton Heath for the London Borough of Croydon.

Case study
Project Time

Andy Simm joined the Group in 1998 as project manager for Kier Build on the first major PFI hospital in Scotland at Hairmyres, a £67.5m design & build contract that was handed over three months early. He was promoted to operations director in July this year.

Andy's current responsibilities include a £59m commercial development at Hatfield – Project Time – for Arlington Property Development, pre-let to telecommunications giant T-Mobile, which is nearing completion. This comprises a campus-style development of six new high specification four-storey buildings with a separate underground car park.

A high standard of health & safety has been maintained throughout the project and the site was used by both Kier and the Health & Safety Executive for an open day during the European Week for Health & Safety to demonstrate safe working practices.

Andy is also currently responsible for the £64m Castlepoint retail development at Bournemouth for joint developers Castlemore, Standard Life and Threadneedle Properties – together with other major schemes.

Client	T-Mobile
Value	£59m
Sector	Commercial
Duration	78 weeks
Size	465,000sq ft
Company	Kier Build

Kier National

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

Performance

- Turnover up 25% to £413m, growth largely within Kier Build
- Improved risk profile – 95% of all awards this year either negotiated or partnered
- The International operation is now profitable
- Taylor Woodrow tower crane fleet acquired by Kier Plant

The future

- Continue to reduce risk through increased negotiated and partnered work
- Consolidate and build on the £460m order book
- Improve safety performance and awareness
- Invest in training and staff development to ensure our teams realise their full potential

Turnover up 25.4%

£412.6m

"Project Time required total commitment and trust from all parties right from the outset. There was no time to test each other and see how we would get along. Kier's 'can-do' attitude and the mutual understanding between contractor and designer ensured that the project got off the ground quickly and smoothly. The excellent working relationship added enormously to people's personal performance and enjoyment of the project. All deadlines and quality standards were met. Kier's early introduction of a project website was a major contributing factor to the smooth flow of information and communication. Working relationships don't get better than this!"

Peter Moller, Associate
Scott, Brownrigg & Turner Architects

Kier National

LEFT Major dock upgrade at Devonport Dockyard. Kier Construction.

RIGHT Proposed development at Whitehall Place involving Kier Property (developer) and Kier Build (contractor).

KIER BUILD

MAJOR BUILDING PROJECTS

Kier Build successfully completed two major projects during the year: Northcliffe House, an office development in the old Daily Mail building off Fleet Street for Hilstone Corporation and Kinnaird House, an office development within four retained façades, in Pall Mall for Haslemere Estates.

The demanding reconstruction of Mons Barracks, Aldershot for Defence Estates and a major office development at Hatfield for Arlington Securities are nearing completion. Other existing contracts, including the prestigious Paragon complex for TAG McLaren, a new office and manufacturing facility for Matra BAE Dynamics at Stevenage and Kier Build's second PFI hospital project in Reading for West Berkshire Primary Care Services NHS Trust, continue to make good progress and have contributed strongly to growth in turnover this year.

Significant contract awards during the year will ensure continuity of work. These include: a £64m major retail development in Bournemouth for Castlemore Securities, a £39m office development in the heart of Birmingham for Richardson Barberry and a £29m office development in Whitehall for Kier Ventures which, on completion, will accommodate the Department for Environment, Food and Rural Affairs.

Reflecting the importance of its staff, Kier Build achieved 'Investor in People' status this year and remains focused on developing the full potential of all its teams.

KIER CONSTRUCTION

CIVIL ENGINEERING & MINING

Kier Construction made good progress during the year on the majority of its existing projects and, in securing new work, has achieved penetration into new markets. During the year a £250m framework agreement with United Utilities was secured, in joint venture with J Murphy & Sons and Interserve Project Services, the largest framework contract to be let in the water sector in this country. Work has begun and, over the next three years, the joint venture will deliver on approximately 150 target cost contracts in the North Manchester and Liverpool area.

Having completed nine major power stations through the 1990s the company was delighted to secure an 800MW CCGT Plant at Immingham for Conoco.

At Devonport the nuclear upgrade of 14 Dock was completed to both time and budget, a commendable achievement in this highly regulated sector. This demonstrates the clear and mutual benefits that can be achieved by close partnerships between client and contractor. Further awards at the dockyard will take the company into its sixth successive year of work with Devonport Management Limited.

Work on two major contracts on the Channel Tunnel Rail Link in North London, which have been running for 12 months, is progressing well and significant milestones are approaching. Contract 250 will soon start its first tunnel bore in line with its initial programme. At Contract 103 at Kings Cross a rail transfer facility has recently opened and progress is being made towards the launch of the first bridge slide across the Midland Mainline at the end of this year.

The Mining division confronted unexpected ground conditions on its sole contract coal-mining project for Scottish Coal at Gasswater. This has led to significant difficulties during the year and has required a provision.

Having achieved 'Investor in People' status at the end of 2000, Kier Construction has invested significant resources in further developing its workforce and is committed to a process of continuous improvement.

LEFT The railhead opening by the Rt Hon Frank Dobson MP at CTRL Contract 103, a joint venture between Kier and Nuttall.

RIGHT Kier Plant tower cranes in use on a CTRL project at the Medway crossing in Rochester.

RIGHT Molina Bridge in Honduras, one of three bridges built by Kier International to replace those destroyed by Hurricane Mitch.

KIER INTERNATIONAL

Kier International had a very successful year, benefiting from the prudence applied in assessing contract outturns in previous years together with the strategy to reduce risk in the operation, implemented two years ago. The business will continue to seek negotiated opportunities with key clients, and will refrain from competitively tendering in local overseas markets. During the year, this policy resulted in the award of over £40m of new work, securing turnover for the forthcoming financial year.

In Hong Kong, work on the challenging Mass Transit Railway Corporation contract is now complete, while work at two major stations for the Kowloon Canton Railway Corporation are progressing well.

In India, work on the Dabhol contract for the Enron subsidiary Lingtec, which was suspended in June 2001, was eventually terminated and the company has successfully demobilised and disposed of its major plant holding. The contract will produce a satisfactory return on the basis that no further monies from Enron are received.

The joint venture project with Mivan for social housing and water supplies in Romania continues to progress well, as does the phosphate mining work in Jordan.

Work in the Caribbean and Central America continues to be predominantly low risk plant maintenance and development for Alcoa, in joint venture with CCC Group Inc of Texas. Further work of this nature has been awarded during the year, giving two years' future workload.

The company is confident that the problems of the past few years are now overcome and has established a forward order book with an acceptable risk profile. This should enable it to continue to contribute positively to the Group results in the future.

KIER PLANT

Kier Plant had an excellent year and, to reflect its growing strength, changed its status to become a separate limited company in July 2001.

Additional investment in telehandlers and office accommodation brought fleet numbers to 80 and 2,100 respectively and in February 2002, 28 tower cranes were purchased from Taylor Woodrow together with the assignment of existing contracts. This acquisition brought the fleet size to 90 tower cranes and established Kier Plant as a major tower crane hirer. The company operates its tower crane fleet in association with Arcomet of Belgium, the largest tower crane rental fleet operator in Europe.

We are committed to reducing risk through increased negotiated and partnered work

Kier Support Services

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

Significant growth

The Support Services division has again seen significant growth with turnover up 35% on the previous year to £80.9m. During the last 12 months, the business made further investment in people and resources necessary to ensure continuity of its planned growth.

Turnover up 35.3%

£80.9m

“Working with Caxton has made a real difference to the quality of service we provide for tenants.”

Andy Jennings, Director of Housing
London Borough of Islington

Client	London Borough of Islington
Sector	Housing maintenance
Duration	10 years
Company	Caxton Islington

Case study
Islington Housing

Jane Nelson has been recently promoted to managing director at Caxton Islington – a joint venture between Caxton and the London Borough of Islington. Caxton Islington manages the outsourced buildings maintenance previously undertaken by the Borough.

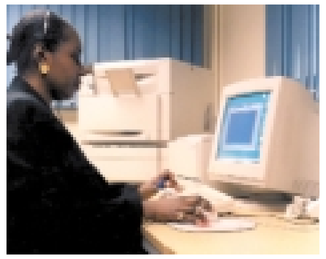
Just one year into the ten year contract, the joint venture has driven down response times, increased the number of repairs per day and, most importantly, dramatically reduced complaints.

Jane played a critical role from the outset and is determined to oversee continuous improvements to the quality of Caxton’s service during its ten year term. She says: “Our ability to get the job done is largely based on fostering good relationships between our 550 strong workforce and our 30,000 tenants. We can’t afford to become complacent as there’s always room for improvement in this service-led environment. However, the fact remains that we have made huge improvements for the benefit of the Islington tenants and credit for this has to go to the Caxton Islington team.”

The highlight of Jane’s career with Kier so far was when Caxton Islington was named ‘Contract Services Team of the Year’ in the recent Local Government Chronicle Annual Awards.

Caxton representatives Vincent Hill (above) and Frank Dennis (main picture).

Kier Support Services



LEFT Caxton's Helen Berkoh manning the call centre.

RIGHT Harple Singh (left) of Caxton Islington's response team.

OVERVIEW

The Support Services division has again seen significant growth with turnover up 35% on the previous year to £80.9m. During the last 12 months, the business made further investment in people and resources necessary to ensure continuity of its planned growth.

The success of the joint venture at Islington has brought new opportunities including a five year contract at Greenwich that began recently. Other large-scale projects are now being evaluated and further opportunities beckon as a number of local authorities look to outsource their building maintenance.

PFI partnerships have worked well and a number of projects have come on stream in the year. Bidding activity continues both for Kier projects as well as for external partners.

The division also recently invested in a consultancy business complete with an established client base and active order book. This has brought an immediate return on investment and presents a new and exciting avenue for expansion.

Operating under the four principal business areas of FM Managed Services, Building Maintenance, PFI Service Provision and now Consulting, Caxton Integrated Services' aims and objectives for the year ahead are to:

- continue to grow its managed services business stream
- increase the return on investment from PFI contracts
- gain further outsourced building maintenance contracts
- establish a structure to grow the consultancy business and take advantage of opportunities
- expand its environmental cleaning service division into a stand-alone business
- grow turnover to approximately £150m in the short-term
- improve the operating margin

FM MANAGED SERVICES

Caxton Facilities Management continued to expand throughout the financial year adding to its already impressive client base. This now extends to a wide range of public and private sector clients. Recent awards include the provision of total facilities management to: Legal & General Assurance at Hove, Cardiff and Kingswood for three years, DEFRA South West managing 35 facilities for five years and Hamworthy Engineering at Poole in Dorset managing the central services. These contracts represent £20m in turnover to the division.

Future objectives are to maintain growth and improve margins while retaining existing clients through excellence of service.

BUILDING MAINTENANCE

The Building Maintenance division secured some significant new contracts during the year. The London Borough of Greenwich awarded Caxton Building Maintenance a five year partnering contract to deliver repairs and improvement works to one quarter of the Council's housing stock. Contracts were secured with North British Housing Association, Notting Hill Housing Trust and Circle Thirty Three Housing Group. The division also entered the key worker accommodation market through its relationship with Opus where it provides a repairs and facilities management service to accommodation for health workers at four hospital sites within or close to the M25.

The control centre at Barking, East London, proved to be highly successful, improving business processes, customer care and client services. This, coupled with the investment made in upgrading IT systems, has positioned Caxton Building Maintenance as a market leader, well placed to tap into the opportunities created by the increase in investment in social housing and the continued move towards outsourcing.

Caxton Islington, the Group's ten year joint venture with the London Borough of Islington, ended its first year in October 2001 with the Local Government Chronicle award for Contract Services Team of the Year. This early success acknowledges the innovations, efficiencies and customer focus which the company has brought to the social housing sector.

RIGHT Farnborough Aerospace Centre where Caxton undertakes FM services. IEI installed and now maintains M&E services.

LEFT Occupational health is one of many FM managed services by Caxton for BAE Systems.

The division intends to build on the success of the Islington contract and the Barking control centre and to win further major local authority housing maintenance contracts. The team is currently focused on a bid for the repairs service at Sheffield City Council. A number of other large scale maintenance opportunities are also being pursued.

The end of this year saw the creation of a separate division focused on expanding the cleaning and environmental services activity. The organisation has built on the strength of the long-term joint venture agreement with Islington Council together with the education cleaning activity also carried out by Caxton Islington and the commercial cleaning activity undertaken by Caxton Facilities Management.

PFI SERVICE PROVISION

Caxton Integrated Services continues to develop its PFI portfolio through focusing on projects in the healthcare and education sectors. The scope of services includes a combination of direct delivery and managed services including full life cycle modelling and management services.

This year saw the opening of the Bournemouth Library scheme in April 2002 as well as the first operational phase of the Redbridge Secondary Schools project providing leisure services. The Tendring Schools project went live in October 2001 following the successful start of the Pembroke Primary Schools contract in September of the same year, where managed services have been provided during the build and development phase.

The main focus on these schemes has been to fully support the people transferring from the public sector and providing appropriate training and guidance to help them adapt to the changes in their working environment. Early involvement with trade unions and staff representatives has assisted the smooth implementation of the schemes.

The preferred bidder negotiations continue on the Greenwich Care Homes scheme and the Brighton Library is approaching financial close in October 2002. Neath Port Talbot Hospital project is set to go live in November 2002 after an intense and successfully managed mobilisation phase.

Looking forward, there is a healthy pipeline of opportunities. The company is short-listed for six schemes and an increasing number of interesting leads bode well for growing both managed services and building maintenance business streams.

CONSULTING

Following the acquisition of a number of pubic sector consultancy contracts from the Barony Group in June 2002, a consulting business stream has been formed. This has provided an established client base and active order book. The company has already secured further orders and is expected to make a positive return in its first year of trading.

The success of the joint venture at Islington has brought new opportunities including a five year contract at Greenwich that began recently

Case study
Elsea Park

Mark Croker has worked for Allison Homes for six years and is the company's resident architect. Mark, 28, is playing a significant part in the progression of Elsea Park, a unique development in the historic market town of Bourne in Lincolnshire.

"For me, this project is exciting and unique. This is more than building homes, we're creating an environment for a whole community. Comprising around 2000 units, the 215 acre development, partially owned and partially under option, will take at least ten years to complete. Every part of what we do has to work not only for the new community, but for the surrounding wildlife.

"All woodland and natural features are to be kept so the scheme will benefit from an existing maturity. We have also planted additional semi-mature trees to soften the entrance to the development.

"In addition to the homes and the parkland, we are providing land for a new infants school and extra recreation space for a grammar school. We're including a park and ride scheme and a community centre. We have to prove to the planners at every stage that what we are creating is truly sustainable."

All the Elsea Park house styles, which range from 5-bed executive homes to 3-bed houses, are designed to reflect the traditional Bourne architecture which is soft and uncomplicated. Architectural interest is achieved through mixing the various house styles.

Sector	Private housebuilding
Size	2,000 units
Company	Allison Homes

"We were encouraged by Allison Homes to create a special place for living. We took many measures to protect wildlife on the site and designed the development so that each house would have a unique setting. I am sure that this is one of the finest new schemes in the region."

Professor Robert Tregay, Senior Partner
Landscape Design Associates

Kier Residential

High quality private housebuilding.

New home completions up

A further brand was added to the portfolio in September 2001 through the acquisition of Allison Homes, Lincolnshire.

Turnover up 31.9%

£145.6m

Kier Residential

LEFT Five-bed executive house styles at Cliddesden Mews, Basingstoke by Bellwinch Homes.

RIGHT Interior of an Allison Home at Elsea Park, Bourne.

REVIEW OF THE YEAR

It has been another year of continued growth for Kier Residential. New homes completions are up 20% on last year from 733 units to 877 units. This, together with an increase in the average selling price of each house from £150,500 to £166,100, has led to a 32% increase in house sales. Profit margins increased from 13% to 14% providing a strong operating profit for the year.

The Group has continued to increase its investment in housing and a further brand was added to the portfolio in September 2001 through the acquisition of Allison Homes, based in Spalding, Lincolnshire, which has been successfully integrated into Kier Residential. The new team is driving the business forward and has increased its number of sales outlets from five on acquisition last September to a current total of 11.

Kier Homes, trading throughout the central belt of Scotland, achieved another year of significant growth. Completions are up 35% and, in only its third full financial year, the company provided a valuable contribution to pre-tax profits.

Looking forward to June 2003, Residential has started the new financial year with a very strong forward sales position 170% above the previous year in value terms.

LAND MATTERS

In addition to the acquisition of Allison Homes at a total cost of £28m, a further £57m was invested in land acquisitions during the year compared with £40m in the previous year. This brings the Kier Residential land bank at 30 June 2002 to 3,814 plots owned with planning permission compared with 2,353 at June 2001 and represents more than four years' trading.

All operating companies have continued to focus on their core areas of activity in considering land opportunities.

STRATEGIC LAND

The strategic land portfolio within the business was further extended following the acquisition of Allison Homes and now comprises approximately 11,000 plots of which 2,500 have outline planning permission, 1,000 are allocated for residential development with the balance in the process of being promoted through the planning system. This strategic land enhances future growth potential providing land for future years at prices below open market value.

NOTABLE ACHIEVEMENTS

During the year the operating companies, in addition to increasing their market share and performance, commenced production and sales on a number of significant developments.

Allison Homes completed complex infrastructure works on its site at Bourne and production of the first phase of housing is under way, with occupations starting in July 2002. This site, which is partially owned and partially under option, has the benefit of outline planning permission providing for over 2,000 homes.

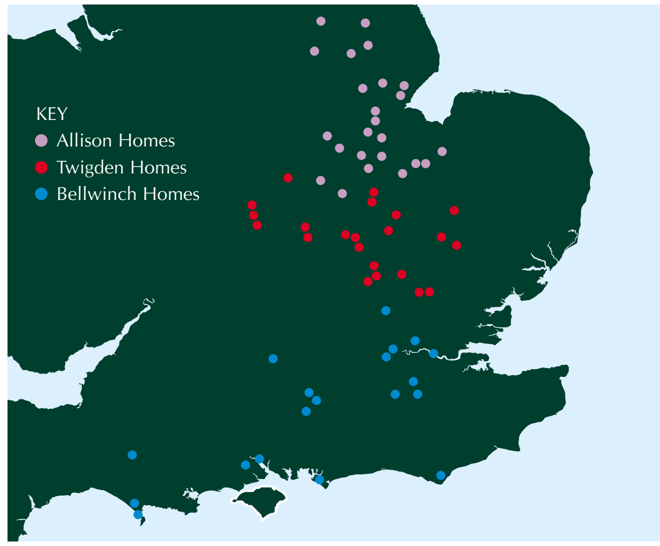
Bellwinch Homes launched its flagship development at Sovereign Harbour in Eastbourne. This marina development of villas and apartments lies within the largest development of its kind within the UK.

Kier Homes Scotland launched its largest development to date on a prime site in Hamilton where it has a one-third share of 1,000 homes.

Twigden Homes completed two niche mews style developments in market towns in Cambridgeshire, both of which proved very successful, in addition to its successful core product ranges.

LEFT A mixed residential development by Twigden and Bellwinch at Waltham Abbey.

BELOW Drumkinnon Gate, Balloch, at the foot of Loch Lomond, by Kier Homes.



AWARDS

Kier Residential attaches a great deal of importance to achieving external recognition for quality, safety and innovation. In the year to June 2002 Bellwinch achieved ISO standards in respect of environmental, occupation safety and quality management systems and a British Safety Council award for health and safety. Allison Homes successfully completed its registration as an 'Investor in People'. The division has again been successful with the achievement of a further three NHBC 'Pride in the Job' awards by Bellwinch Homes for its development at Eastbourne and Twigden Homes at Royston and Shefford.

Environmental Green Leaf awards are held by Allison Homes, Bellwinch and Twigden Homes. The Kier Homes unique development at the foot of Loch Lomond was short-listed for the 'Property Development of the Year' award.

All operating companies have achieved Gold Standard awards from the Royal Society for the Prevention of Accidents and continue to focus their efforts on making their sites a safe place to work and live. Kier Residential companies are taking part in the MCG sponsored Construction Skills Certificate Scheme, again promoting safety and personal awareness standards on site.

A PEOPLE DRIVEN BUSINESS

Kier Residential firmly believes that its people drive the business forward. Training, encouragement and support is offered at all levels throughout the operating companies. Wherever possible, Kier Residential aims to promote from within and give due recognition to staff for achievement through the presentation of internal awards. One direct benefit of this culture is that both staff retention and commitment are high.

Skills shortages within our industry continue to be of some concern. However, Kier Residential operates apprenticeship schemes and is currently sponsoring 24 apprentices in a broad range of key trade skills. During the year four such apprentices completed three year training courses and are now employed within the business. Further extension of this apprenticeship scheme is seen as part of the solution to skills shortages. In addition, direct employment of key trade skills has increased during the year.

KIER Homes | TWIGDEN Homes | KIER Land | ALLISON Homes | BELLWINCH Homes

Residential has started the new financial year with a very strong forward sales position 170% above the previous year

Kier Property

Commercial property development.

Key investment in joint venture

The year has been highly significant in terms of the Group's commitment to expanding the Commercial Property division. In April 2002 Kier, in joint venture with the Bank of Scotland, acquired Laing Property Developments Limited and its subsidiary companies, through Kier Developments.

Total development area

6m sq ft

"We are delighted with the success at Waltham Point, one of the most strategic sites for distribution in the UK. Working with our joint venture partners, Kier Ventures, we have secured a new 700,000sq ft national distribution facility for Sainsbury's, resulting in the biggest ever pre-let of a single warehouse unit in the UK."

Roger Sporle, Fund Manager
Morley Fund Management

Case study Waltham Point

Dick Simkin, managing director of Kier Property, joined the Group ten years ago.

After successfully developing two major out of town retail schemes the company, in 1998, bought the former Royal Ordnance munitions works at Waltham Abbey, Essex. With a prime location just off junction 26 of the M25, Kier soon attracted Norwich Union into a joint venture for the commercial element of the scheme. The 350 acre site then underwent substantial remedial works by sister company French Kier Anglia to upgrade it for development.

Kier Residential developed 25 acres of the site with 50 acres reserved for commercial and industrial use; the remainder was designated to be an extension to the adjoining Country Park. The location of the commercial site proved ideal for Sainsbury's which was seeking a suitable location for a 24-hour distribution centre. The 700,000sq ft regional distribution centre was the first such commitment by Sainsbury's following a comprehensive review of its distribution network throughout the UK. The result, the biggest ever pre-let of a single warehouse unit in the UK.

The state-of-the-art distribution centre, which was built by Kier London and handed over three weeks ahead of schedule, will serve 53 stores in North London and the Northern Home Counties. The centre includes 670,000sq ft of warehouse space plus 30,000sq ft of office accommodation and occupies 44 acres.

Occupier	Sainsbury's
Value	circa £70m
Sector	distribution centre
Size	700,000sq ft
Company	Kier Ventures

Kier Property

LEFT Trade City, Exeter. Kier Developments.

RIGHT Absolute, Frimley. Kier Developments.

The year has been highly significant in terms of the Group's commitment to expanding the Commercial Property division. In April 2002 Kier, in joint venture with the Bank of Scotland, acquired Laing Property Developments Limited and its subsidiary companies, through Kier Developments. With a portfolio of 23 properties and a value approaching £100m, this represents the first major investment by the Commercial Property division. The purchase provides an exciting mix of industrial and office schemes at various stages of development, some of which are income generating. The total end value of the portfolio is around £400m.

Following the formation of the joint venture with the Bank of Scotland, Kier's commercial property operations have been reorganised under the banner of Kier Property, comprising the 50% investment in Kier Developments together with Kier's existing businesses operating through Kier Ventures and Kier Commercial Investments.

KIER DEVELOPMENTS

Backed by a £76m loan facility from the Bank of Scotland, Kier Developments is well placed to exploit emerging opportunities within the property market and has already secured one of the biggest deals with a pre-let of 103,000sq ft of office accommodation to AMS Limited. At the same time on an adjoining site, the company has secured a 12.9 acre site capable of development extending to 480,000sq ft.

Transcend is a joint venture with Laing Investments and Kier Developments which specialises in mixed use developments at or near railway stations. The objective is to work in partnership with train operating companies to act as a catalyst in the reorganisation of areas around railway stations and improve facilities for rail users.

In Aylesbury, where the company is working with Chiltern Railways, eight acres of mixed use development land have been acquired. The deal, which was completed within three months of the acquisition of Laing Property Devlopments, is income generating in the short term and will produce development profits within the next three years. A number of other similar opportunities are in the pipeline which will provide a growing profit stream for the future.

KIER VENTURES

At Cheltenham, Kier Ventures developed and completed a new office for the software company Marlborough Stirling. This 70,000sq ft scheme was built by Moss Construction and forward sold to an overseas investor.

Kier Ventures was successful in agreeing terms for the purchase of a prime Central London development from the Crown Estates. The site will accommodate a new 125,000sq ft building for the Department for Environment, Food and Rural Affairs for which terms have already been agreed. Subject to planning approval, Kier Build is expected to start construction before the end of the calendar year.

At Waltham Point, where Kier is in joint venture with Norwich Union Life and Pensions Limited, a 700,000sq ft distribution centre for Sainsbury's was completed in August of this year. Negotiations are well advanced for the remainder of the site and development plans are expected to be announced shortly.

At Haverhill, Cambridgeshire, the value of the existing retail warehouse investment was enhanced with the grant of planning permission for a 10,000sq ft extension. Negotiations are at an advanced stage with an occupier and construction is programmed to start subject to the completion of the pre-let.

Looking ahead, a development agreement has been secured for a mixed use scheme in Newport, South Wales, on 21 acres. A planning application has been submitted for a retail and residential scheme, which will be developed to coincide with completion of the Southern Distributor Road in late 2004/early 2005.

Kier Property is actively looking for new development opportunities in the coming year in order to further expand and enhance the existing value of the portfolio.

LEFT & ABOVE Crownhill Retail Park, Plymouth. Kier Developments.

RIGHT & BELOW Marlborough Stirling headquarters building, Cheltenham, built by Moss Construction. Kier Ventures.

Case study
Bournemouth Library

Kier Project Investment (KPI) director John Tibbitts joined the company's PFI team five years ago and since then, has made a significant contribution to promoting and realising the Group's interests in the Government's Private Finance Initiative. He is responsible for developing the company's portfolio of public partnerships and also manages its long-term equity investments.

The recently completed Bournemouth Library is an excellent example of how KPI, working alongside other Kier companies, can successfully deliver excellent facilities for the benefit of local communities.

Worth £67m over 30 years, this is the first local authority library PFI project in the country to offer information and communication technology (ICT) facilities.

The library was built by sister company Henry Jones under a £10m contract. The two-storey library occupies a floor area of 3,850sq m and includes a café and retail units. A wide range of ICT facilities are available at the New Central Library and at 11 branch libraries, allowing all customers internet access and the ability to browse the library catalogue online.

Caxton Facilities Management, another Kier company, is operating and maintaining the library facilities for the 30 year concessionary period.

Client	Bournemouth Borough Council
Value	£67m
Sector	Civic
Duration	30 years
Size	3,850sq m
Company	Kier Project Investment

Kier Project Investment

Promotes and manages the Group's interest in the private finance initiative, creating concession holding businesses in healthcare, education and other local services.

Innovative solutions are our hallmark

Since KPI was established in 1998, in addition to the library, the company has completed one major hospital, which was handed over three months early, and has two more major health schemes under construction. In the education sector, a project to refurbish existing schools and provide new schools in Essex is also in progress. The company has also been named preferred bidder for three care homes in Greenwich.

Committed investment

£10.6m

"As the first PFI library of its kind – covering building and ICT provision – to be completed in the country, this marks a great achievement for the Borough. Now, Bournemouth can enjoy the benefits of a new public building which will serve as a focal point for residents and visitors alike."

Stephen Godsall, Director of Leisure & Tourism
Bournemouth Borough Council

Kier Project Investment

RIGHT Prospect Park Hospital, Reading, is the company's third major PFI healthcare contract and is the first major mental health PFI project in the country.

PROJECT INVESTMENT

Kier Project Investment (KPI) leads the Group's involvement in PFI. The company's strategy for being involved in PFI is based on the following key objectives:

- to provide a portfolio of infrastructure project investment yielding returns of around 15% and providing a long-term income stream
- to provide a flow of negotiated construction and support services contracts for Kier's other operating divisions
- to provide opportunities for land acquisitions

KPI continues to pursue opportunities that meet these criteria and in October, announced the award of its first schools project, Tendring Schools in Essex, its fifth PFI project. KPI is also preferred bidder on Greenwich Care Homes on which financial close is expected shortly.

The addition of these projects brings KPI's committed interest, including Greenwich Care Homes, to £10.6m with expected long-term yields in excess of 15% over concession periods of, typically, 30 years.

The company has been short-listed for several other projects, mainly in the health and education sectors, where the knowledge and expertise within the business can add value to selected schemes.

CURRENT INVESTMENTS

HEALTH

Hairmyres Hospital in East Kilbride is the first PFI project to commence operation. It is performing well and Kier's 50% investment is now producing regular returns. In South Wales, construction of a second PFI hospital for Bro Morgannwyg NHS Trust is well under way and is expected to complete early in November. Caxton will then provide non-clinical support services over the 27.5 year term. Kier has a 25% stake in this project.

A third PFI project in health for West Berkshire Primary Care Services NHS Trust is under construction by Kier Build and will be available for occupation from March 2003. The consortium, in which Kier holds a 50% stake, is to provide a 203-bed mental health unit for a period of 30 years.

LOCAL AUTHORITIES

Bournemouth Library is now complete and opened its doors to the public in April. Kier holds 50% of the equity in the consortium, which was granted a 30 year concession to provide a new building and retail complex constructed by Kier Regional. Caxton is servicing the Library for the concession period.

EDUCATION

Our first schools project under PFI is currently under construction. French Kier Anglia is undertaking the design & build contract for remodelling, rebuilding or refurbishing 12 primary schools in North East Essex and Caxton is providing facilities management under a 32 year contract. Kier holds 50% of the equity in the consortium established to provide these services.

CARE HOMES

In November 2001, Kier was selected as Greenwich Council's preferred partner for the London Borough of Greenwich Neighbourhood Resources Centres (PFI) Project (Greenwich Care Homes). The concession, in which Kier has a 50% stake, involves the construction of three new care homes and the provision of care facilities for 30 years. On financial close, which is expected in September 2002, Kier London will undertake the design & build contract for the new care homes. On completion, Caxton will be responsible for providing hard facilities management and life cycle repairs.

The company has been short-listed for several other projects, mainly in the health and education sectors, where the knowledge and expertise within the business can add value to selected schemes.

PROJECT	OPERATIONAL	CONSTRUCTION PHASE	PREFERRED BIDDER	SHORT-LISTED
Hairmyres Hospital	●			
Neath Port Talbot Hospital		●		
Bournemouth Library	●			
West Berkshire Hospital		●		
Tendring Schools		●		
Greenwich Care Homes			●	
Islington Housing II				●
Bedfordshire Schools				●
Hinchingbrooke ACAD				●
Addenbrookes Hospital				●
Central Middlesex BECaD				●

LEFT Current status of PFI projects.

BELOW Bournemouth Library interior. Kier Project Investment, Henry Jones and Caxton Facilities Management.

KEY POLICIES AND SERVICES

LEFT CTRL Contract 250; the chamber for installation of the two tunnel boring machines; both permanent and temporary works designed by Kier Engineering Services.

RIGHT Kier Construction graduate site engineer Sofia Zagori at CTRL Contract 103.

KIER ENGINEERING SERVICES

Kier Engineering Services, the Group's in-house engineering department, has seen an increase in the number of qualified engineers supporting the Group companies and joint ventures both at home and overseas.

The major part of its work is on temporary works schemes, which are vital for the safe and successful completion of many of our projects both large and small. Examples during the year include the CTRL contracts and Immingham Power Station for Kier Construction, the Colmore Square project for Kier Build and numerous contracts for Kier Regional.

The department also carries out many permanent works designs for the Regional companies and a number of value engineering redesigns to clients' schemes. A notable example of this is the redesign of part of the CTRL Contract 250 which has eased the construction process and returned significant savings to the client.

With a steady increase in the number of graduates employed by the Group, the department's role in providing design training to professional standards remains a significant one.

HEALTH AND SAFETY

Throughout the year Kier Group companies have actively pursued the health and safety targets set by the Major Contractors Group Charter. A programme of health and safety awareness for all members of the supply chain involved in Kier Group projects has been re-emphasised. This programme starts in the boardroom with direct commitment and resources allocated from the main Board through to individual operating companies.

This strategic decision to drive health and safety from the top is delivered by regular director and senior management site tours, and company audits of supply chain activities.

The Revitalising Health and Safety Strategy Document 2000, which defines industry specific standards for health and safety, has been used with standards set by the Major Contractors Group to define the way in which Kier manages health and safety. Kier Group has developed working health and safety partnerships with suppliers and manufacturers to improve occupational health and general health and safety. Examples of this include initiatives on 'hand arm vibration' and 'torque injuries' with Hilti and Speedy Hire.

A number of road shows have taken place this year with particular emphasis on work at height, transport and other key issues. The Group does, however, appreciate that in the construction industry a momentary lapse can be a significant factor in serious incidents and to this end employees and subcontractors are regularly refocused on general safety awareness.

Kier Group's Accident Incidence Rate (AIR) at June 2002 was 699 per 100,000 employees including subcontractors. This compares favourably with the industry average AIR of 1,221 for the same period.

In recognition of Kier Group's commitment and co-operation programme within the industry, the HSE awarded a National Health and Safety award for active contribution to National Health and Safety Week in October 2001.

Kier Group companies received 11 Gold RoSPA awards and one Silver RoSPA award during the year.

KIER AND THE ENVIRONMENT

Throughout the year Kier Group companies have been active in the environmental sphere, regularly reviewing and managing environmental action plans and pursuing targets set within the guidelines contained in their own environmental policy statements. Kier Construction is actively seeking accreditation to BS 18001 of its established management systems covering quality, health, safety and the environment in the context of its water framework agreement in the North West of England. In addition, a number of major infrastructure projects have achieved ISO 14001 accreditation in their own right.

Kier Group companies are involved in many projects around the country exemplified by the recently completed construction of a major wind farm on Kintyre, Scotland. Also recently completed was the remediation of the highly contaminated Beckton gas works site in East London in order that work on building the first phase of the leisure and retail park on this site could start. A temporary railhead facility on the Channel Tunnel Rail Link projects in London has been opened to remove waste from sites around Kings Cross. This will avoid 150,000 vehicle movements over the next three years. In Kier Residential, careful consideration is given to the existing surroundings when planning and developing sites. Retention of trees and wildlife is managed and encouraged on all developments and the use of brownfield sites is on the increase reducing the impact on the environment. In East Anglia Kier has been instrumental in establishing an Environmental Performance Improvement Club in conjunction with the Construction Industry Research & Information Association and the Government

RIGHT Twigden Homes health & safety advisor Jackie Franklin at a pre-school safety visit.

BELOW Kier staff receiving health & safety training on site at CTRL Contract 103.

Organisation for the East of England (Go-East) Environment Group. The aim of the Club is to raise the environmental awareness of staff and supply chain partners and to help them improve their environmental performance.

The profile of sustainability has also been raised during the past year. The Group's joinery business is working closely with timber suppliers and government bodies to satisfy the standards set by the Forest Stewardship Council with regard to the certification and sustainability of all temperate hardwoods. The assistance of the Timber Research and Development Association has been sought to audit the felling and replanting process, which has resulted in Kier becoming a member of the World Wildlife Fund 95 Group. Kier Residential is involved with bodies such as EcoHomes which require that consideration is given to distances to schools and shops as well as organic waste disposal and energy efficiency when planning residential developments. Sustainability has been actively considered in the benchmarking processes that have been implemented during the year.

Having established databases for a range of environmental projects over the last 12 months, Kier is now in a position to set benchmarks against which continuous improvement will be targeted in the coming years. The activities selected focus on raising awareness and reducing waste and emissions throughout all businesses. Benchmarks have been set in the following areas:

- waste disposal on sites
- CO_2 emissions produced by the vehicle fleet
- energy usage in business establishments
- training provided in environmental issues
- the number of infringements of environmental regulations

Kier will continue to measure its performance in these areas and report on this periodically.

The built environment clearly impacts on the world in which we live. Kier Group's role, as a professional and responsible contractor, is to build in harmony with the environment. With an increasing proportion of activities being executed on a design & build basis the Group is able to exercise greater influence in the choice of both materials and construction processes in order to improve sustainability, minimise waste, maximise energy efficiency and consider through-life costing.

Kier Group companies are committed to working sensitively within the environmental constraints and to forging even closer links with the Environment Agency to better understand their roles in the nation's future.

TRAINING AND PEOPLE DEVELOPMENT

Kier Group's aim is to attract and retain good people and develop its whole workforce to be best in class. Within the construction industry, Kier has an enviable reputation for training and developing people to satisfy their career aspirations. This reputation gives Kier a big advantage when recruiting. Supportive personnel and training policies and practices enable Kier to retain the best.

Even though declining interest in construction as a career is producing fewer graduates each year Kier has, once again, successfully met its targets for recruitment against industry trends. Ninety graduates (an increase of 50%) and seventy students will start their professional careers with Kier this year, some in overseas locations. Individual attention, challenging work experience, responsibility and an encouragement to gain professional qualifications motivates students and graduates alike to give of their best and allows them to achieve their career goals. The diversity of the people recruited demonstrates Kier's commitment to an equal opportunities policy that encourages job applications from all sectors of the community.

The Group continues to work with schools and careers advisors promoting construction as a rewarding career and raising its profile with the school-leaver who is attracted by funded day-release education to degree level.

Further evidence of the Group's reputation as an employer came in March 2002 when it was awarded a place in the list of the '100 Great Places to Work' by The Sunday Times. The award was based largely on an attitude survey forwarded to 250 randomly chosen staff.

To support Kier Group's commitment to employing a fully qualified site workforce by the end of 2003, selected staff have been trained as National Vocational Qualifications (NVQ) assessors. NVQs are now offered with all management development programmes to those who are not following other routes to professional membership. This commitment extends to Kier Group's supply chain, all members of which have the full support of the Group in their efforts to develop their workers and to confirm and register their competence.

Kier Group continues to provide the appropriate work environment and the high quality of development training for its senior managers, to prepare them for future leadership roles in its business.

Our proven strategy of investing the cash generated by our construction operation into the higher margin, cash consuming, homes and property operations has driven the growth in profits enabling us to record our 10th successive increase in profits since the Group's formation in 1992.

Financial statements

Directors' report

The directors present their annual report and audited financial statements for the year ended 30 June 2002.

Principal Activities and Business Review

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

A review of the Group's business and progress is given within the Chairman's Statement, Financial Review and Review of Operations on pages 8 to 39.

Results and Dividends

The Group profit for the year after taxation was £20.3m (2001: £16.0m).

An interim dividend of 4.5p per share (2001: 3.9p) amounting to £1.5m (2001: £1.3m) was paid on 16 May 2002. The directors propose a final dividend of 9.7p per share (2001: 8.4p per share) amounting to £3.3m (2001: £2.8m) payable on 10 December 2002 to shareholders on the Register of Members at the close of business on 4 October 2002.

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 shown on pages 4 and 5. Miss D E Mattar was appointed a director on 12 September 2001. Mr D V Brand did not offer himself for re-election at the Annual General Meeting on 24 November 2001 and ceased to be a director from that date.

At the forthcoming Annual General Meeting resolutions will be proposed for the re-election of Mr J Dodds, Mr D Homer and Mr P F Berry as directors of the Company. At that date, the unexpired term of the contracts of employment with the Company of Mr J Dodds and Mr D Homer will be twelve months. Mr P F Berry does not have a service contract.

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 consults 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 2002 was as follows:

	Salary & fees £000	Benefits £000	Bonus £000	Total 2002 £000	Total 2001 £000
C R W Busby	294	11	30	335	308
P F Berry	25	–	–	25	23
D V Brand (retired 24 November 2001)	269	1	–	270	238
J Dodds	197	11	20	228	207
D Homer	188	12	19	219	199
S W Leathes	24	–	–	24	7
D E Mattar (appointed 12 September 2001)	144	13	17	174	–
M P W Scarth	206	12	21	239	220
P T Warry	27	–	–	27	24
P G Corbett (retired 25 November 2000)	–	–	–	–	11
	1,374	60	107	1,541	1,237

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. In addition the directors are entitled to awards under the Long Term Incentive Plan described below.

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

Mr Berry's remuneration for the year was 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	14	181	185
J Dodds	9	111	118
D Homer (see below)	2	21	57
D E Mattar (see below)	2	5	10
M P W Scarth	9	124	134

The increase in a member's accrued benefit over the year shown above makes allowance for the annual inflationary increase applicable to the accrued benefits as at 30 June 2001.

Transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less members' 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 2002 was £185,000 (2001: £168,000).

As Mr Homer and Miss Mattar joined the Company after 1 June 1989, their benefits from the Kier Group Pension Scheme are subject to the earnings cap in accordance with Inland Revenue requirements, currently £97,200.

The Company operates a funded unapproved retirement benefit scheme (FURBS) for the benefit of Mr Homer. During the year the Company contributed £56,886 (2001: £52,051) to the FURBS, a defined contribution scheme. The amounts payable on retirement from the FURBS are not included in the table set out above.

Included within the salary of Miss Mattar is an allowance representing 20% of salary in excess of the earnings cap.

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 2002	1 July 2001 or later date of appointment
C R W Busby (chairman)	601,644	601,011
P F Berry (non-executive)	5,000	5,000
J Dodds	549,910	545,919
D Homer	57,301	57,301
S W Leathes (non-executive)	5,500	–
D E Mattar	10,828	4,828
M P W Scarth	407,927	400,120
P T Warry (non-executive)	7,033	6,903

In addition, the executive directors, as potential beneficiaries of the Kier Group 1999 Employee Benefit Trust, are deemed along with all other UK employees to have an interest in 490,000 (2001: 450,000) Ordinary Shares with a nominal value of £4,900 (2001: £4,500) representing 1.4% of the called up share capital of the Company, held by the Trust.

At 17 September 2002 the following directors had acquired beneficial interests in further Ordinary Shares: Mr C R W Busby, 73 shares; Mr J Dodds, 67 shares; Miss D E Mattar, 67 shares; Mr M P W Scarth, 73 shares. There had been no changes in the interests of the other directors since 30 June 2002.

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

	Date of grant	Exercise price	30 June 2002	1 July 2001
C R W Busby	16 May 2000	250p	651	651
D E Mattar	16 May 2000	250p	651	651
M P W Scarth	16 May 2000	250p	651	651

The Sharesave Scheme Options are exercisable from 1 July 2003.

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

	Date of grant	Exercise price	1 July 2001	Exercised	Market price at date of exercise	30 June 2002
C R W Busby	14 Oct 1998	189.5p	8,000	–	–	8,000
J Dodds	14 Oct 1998	189.5p	8,000	–	–	8,000
D Homer	5 Dec 1996	170.0p	17,647	17,647	682.5p	–
	6 Dec 1996	170.0p	58,823	58,823	711.5p	–
	14 Oct 1998	189.5p	8,000	8,000	500.0p	–
D E Mattar	9 July 1998	250.0p	12,000	–	–	12,000
	14 Oct 1998	189.5p	2,000	–	–	2,000
M P W Scarth	14 Oct 1998	189.5p	8,000	–	–	8,000

No Performance Related Options held by directors were cancelled or lapsed during the year.

The market price of the shares at 30 June 2002 was 599.0p and the range during the year was 402.5p to 721.0p. The aggregate gain on the exercise of the share options in the year was £433,807 (2001: £633,990) including £nil (2001: £211,330) made by the highest paid director.

Performance Related Options 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 per cent of the shares could be acquired on exercise of the options; between median and next quartile the amounts exercisable are calculated pro rata. Based on total shareholder return over the three year periods ended July, October and December 2001 directors were entitled to acquire 100% of the shares over which they were granted options in 1996 and 1998.

Long Term Incentive Plan (LTIP)

The objective of the LTIP is to underpin the Company's longer term business strategy by providing a share-based incentive that only vests in directors when certain performance targets are met over a three year period. The performance targets in place for the award made in the year to June 2000 (maturing in the year to June 2003) were set out in the explanatory notes to the Notice of the 1999 Annual General Meeting at which the LTIP was approved by shareholders. This followed a period of consultation with advisors and major shareholders. The same targets were set for the awards made in the years ended 2001 and 2002.

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 by at least 25% per annum compound (the 'Maximum Target') over a three year period ending on 30 June 2002, in respect of awards made during the year ended 30 June 2000, 30 June 2003 for awards during the year ended 30 June 2001, and 30 June 2004 for awards made in the year ending 30 June 2002.

- 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 awards which will vest for performance between the Base Target and the Maximum Target will be calculated on a straight line basis.

Awards under the Kier Group 1999 Long Term Incentive Plan include the following awards made to executive directors of the Company in the form of a deferred right to acquire, at no cost, the following maximum number of Ordinary Shares in the Company:

	2000	2001	2002	Cumulative total
C R W Busby	41,459	51,210	33,519	126,188
J Dodds	28,524	34,450	22,346	85,320
D Homer	28,192	34,078	22,346	84,616
D E Mattar	7,500	7,500	18,994	33,994
M P W Scarth	30,182	36,312	–	66,494

For the three-year period ending on 30 June 2002 earnings per share, before crediting the profit on disposal of interest in subsidiary undertaking, increased by 23.96% per annum compound. Accordingly the directors will receive 94.88% of the award made during the year ended 30 June 2000 and will be entitled to receive the number of shares set out below, at no cost, on 1 October 2002 on which income tax will be payable. Alternatively the directors may elect to receive an element of the entitlement in cash in order to satisfy their tax liability based on up to 40% of the number of shares to which they are entitled at the share price prevailing on the date the share transfers are made.

	Number of shares
C R W Busby	39,336
J Dodds	27,063
D Homer	26,748
D E Mattar	7,116
M P W Scarth	28,636

Substantial Shareholdings

At 17 September 2002 the Company had been notified by Standard Life Investments Limited that it held a 6.9% interest in the Ordinary Share Capital of the Company.

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 also operates a share incentive plan for all employees. 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 46 to 47.

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 £34,000 (2001: £21,000). No political donations were made (2001: nil).

Policy on Payment of Creditors

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

Subsidiary trading companies within the Group, acting in accordance with the above policy, exhibit creditor days averaging 32 (2001: 38) in respect of suppliers of invoiced goods and services and 22 (2001: 21) in respect of certified amounts due to subcontractors. These figures exclude amounts not currently due for payment but included within trade creditors.

Auditors

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

By Order of the Board

D E Mattar
Secretary

17 September 2002
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 is Mr P F Berry.

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

The Board has a formal schedule of matters specifically reserved to it for decision. All directors have access to the advice and services of the company secretary. The directors are able to seek independent professional advice if necessary at the company's expense. Training is available for new directors and subsequently as necessary. All directors are subject to election by shareholders at the first AGM following their appointment, and to re-election thereafter at intervals of no more than three years.

Audit Committee
The Audit Committee comprises the three non-executive directors under the chairmanship of Mr S W Leathes. The Committee meets generally three times a year and will usually request the attendance of the 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 oversee 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 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 Control
The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal control. This extends the directors' review to cover all controls – including operational, compliance and risk management – as well as financial controls. The directors are satisfied that procedures are in place to ensure that the Group complies with guidance published by the Institute of Chartered Accountants in England & Wales.

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

The principal 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 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 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 Chairmen of the Audit Committee and the Remuneration Committee are available to answer questions from investors. The Group also maintains a regular dialogue with institutional investors to assist in the understanding of the Group's objectives. The Kier website (www.kier.co.uk) is also maintained to aid communication with investors, employees, customers, suppliers and the general public.

Statement of directors' responsibilities

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

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

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

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

We have audited the financial statements on pages 50 to 70.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 48 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 1985. We also report to you, if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by Law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 46 and 47 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and 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 2002 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

17 September 2002

Consolidated profit and loss account

for the year ended 30 June 2002

	Notes	2002 £m	2001 £m
Turnover – Continuing operations			
Group and share of joint ventures	2	**1,382.7**	1,251.1
Less share of joint ventures turnover		**(13.3)**	(18.7)
Group turnover (acquisitions £25.0m, 2001: £nil)		**1,369.4**	1,232.4
Cost of sales		**(1,276.2)**	(1,156.3)
Gross profit		**93.2**	76.1
Administrative expenses		**(68.4)**	(56.2)
Operating profit – Continuing operations – Group		**24.8**	19.9
(acquisitions £4.1m, 2001: £nil)			
Share of operating profit – joint ventures		**1.4**	1.4
Total operating profit: Group and share of joint ventures	2	**26.2**	21.3
Profit on disposal of interest in subsidiary undertaking	20	**0.7**	–
Net interest receivable – Group	3	**1.9**	1.0
Net interest payable – joint ventures		**(0.6)**	(0.4)
Net interest payable – associates		**(0.2)**	–
Profit on ordinary activities before taxation	2	**28.0**	21.9
Taxation on profit on ordinary activities	7	**(7.7)**	(5.9)
Profit for the year		**20.3**	16.0
Dividends	8	**(4.8)**	(4.1)
Retained profit for the Group and its share of joint ventures and associates	19	**15.5**	11.9
Earnings per Ordinary Share	9		
– basic		**60.4p**	48.0p
– diluted		**58.8p**	47.1p
Adjusted Earnings per Ordinary Share	9		
(excluding profit on disposal of interest in subsidiary undertaking)			
– basic		**58.3p**	48.0p
– diluted		**56.7p**	47.1p

All items in the profit and loss account relate to operations continuing as at 30 June 2002.

An adjustment of £0.6m has been made in the June 2001 comparatives to 'Share of operating profit – joint ventures' and 'Net interest payable – joint ventures' to reflect a change in accounting treatment within the accounts of a joint venture. There is no effect on the profit before tax for the Group.

Consolidated balance sheet

at 30 June 2002

	Notes	2002 £m	2001 £m
Fixed assets			
Tangible fixed assets	10	**48.9**	46.3
Investments			
Investments in joint ventures			
Share of gross assets	11	**143.1**	82.9
Share of gross liabilities	11	**(139.8)**	(78.9)
Loans provided to joint ventures	11	**21.9**	4.4
Investment in joint ventures	11	**25.2**	8.4
Investment in associates	11	**2.3**	–
Investment in own shares	11	**1.6**	1.1
		29.1	9.5
		78.0	55.8
Current assets			
Stock	12	**251.3**	164.4
Debtors due within one year	13	**201.6**	200.7
Debtors due after more than one year	13	**7.6**	11.3
Cash at bank and in hand	17	**49.2**	60.9
		509.7	437.3
Current liabilities			
Creditors – amounts falling due within one year	14	**(488.2)**	(416.8)
Net current assets		**21.5**	20.5
Total assets less current liabilities		**99.5**	76.3
Creditors – amounts falling due after more than one year	14	**(18.0)**	(12.8)
Provisions for liabilities and charges	15	**(7.0)**	(5.7)
Net assets		**74.5**	57.8
Capital and reserves			
Called up share capital	18	**0.3**	0.3
Share premium account	19	**13.7**	12.0
Capital redemption reserve	19	**2.7**	2.7
Profit and loss account	19	**57.8**	42.8
Equity shareholders' funds		**74.5**	57.8

Company balance sheet

at 30 June 2002

	Notes	2002 £m	2001 £m
Fixed assets			
Investment in subsidiary undertakings	11	**54.8**	54.6
Investment in own shares	11	**1.6**	1.1
		56.4	55.7
Current assets			
Debtors	13	**21.2**	10.2
Cash at bank and in hand		**22.6**	43.0
		43.8	53.2
Current liabilities			
Creditors – amounts falling due within one year	14	**(60.7)**	(70.0)
Net current liabilities		**(16.9)**	(16.8)
Total assets less current liabilities		**39.5**	38.9
Creditors – amounts falling due after more than one year	14	**(12.5)**	(13.8)
Net assets		**27.0**	25.1
Capital and reserves			
Called up share capital	18	**0.3**	0.3
Share premium account	19	**13.7**	12.0
Merger relief reserve	19	**1.2**	1.2
Capital redemption reserve	19	**2.7**	2.7
Profit and loss account	19	**9.1**	8.9
Equity shareholders' funds		**27.0**	25.1

The financial statements were approved by the Board of directors on 17 September 2002 and were signed on its behalf by:

C R W Busby

D E Mattar

Directors

Consolidated cash flow statement

for the year ended 30 June 2002

	Notes	2002 £m	2001 £m
Net cash inflow from operating activities	20	**50.0**	38.5
Returns on investments and servicing of finance			
Interest received		**2.1**	3.6
Interest paid		**(1.1)**	(2.2)
Interest from joint ventures		**0.7**	0.9
		1.7	2.3
Taxation			
UK corporation tax paid		**(6.7)**	(4.7)
Overseas tax paid		**(0.1)**	(0.3)
		(6.8)	(5.0)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(11.5)**	(24.5)
Sale of tangible fixed assets		**2.1**	13.8
		(9.4)	(10.7)
Acquisitions and disposals	20	**(44.0)**	(4.4)
Equity dividends paid		**(3.2)**	(2.9)
Financing			
Issue of ordinary share capital		**0.5**	0.4
Purchase of own shares		**(0.5)**	(0.5)
		–	(0.1)
Cash (outflow)/inflow before use of liquid resources		**(11.7)**	17.7
Management of liquid resources			
Net (increase)/decrease in short-term bank deposits		**(6.4)**	17.6
Sale of short-term investment		**–**	0.8
		(6.4)	18.4
(Decrease)/increase in cash during the year		**(18.1)**	36.1
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash during the year		**(18.1)**	36.1
Cash outflow/(inflow) from movement in liquid resources		**6.4**	(18.4)
Movement in net funds in the year	20	**(11.7)**	17.7
Net funds at 1 July		**58.1**	40.4
Net funds at 30 June		**46.4**	58.1

Consolidated statement of total recognised gains and losses

for the year ended 30 June 2002

	2002 £m	2001 £m
Profit for the year	**20.3**	16.0
Currency translation	**(0.5)**	0.2
Total recognised gains and losses for the year	**19.8**	16.2

Reconciliation of movements in shareholders' funds

for the year ended 30 June 2002

	Group		Company	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Shareholders' funds at 1 July	**57.8**	44.5	**25.1**	23.9
Issue of shares				
Share premium	**1.7**	1.2	**1.7**	1.2
Total recognised gains and losses for the year	**19.8**	16.2	**5.0**	4.1
Dividends	**(4.8)**	(4.1)	**(4.8)**	(4.1)
Shareholders' funds at 30 June	**74.5**	57.8	**27.0**	25.1

Notes to the financial statements

1 Accounting policies

Convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements. The notes to the accounts include memorandum amounts disclosed in accordance with the second year transitional provisions of FRS 17 'Retirement Benefits'.

The adoption this year of FRS 19 'Deferred Tax' and UITF 34 'Pre-contract Costs' has resulted in no prior year adjustments. The presentation of the profit and loss account for the year ended 30 June 2001 has been altered due to a change in accounting basis within a PFI special purpose joint venture reflecting a change in presentation from 'fixed asset' to 'contract debtor'. An adjustment of £0.6m has been made to 'Share of operating profit – joint ventures' and 'Net interest payable – joint ventures'. The effect on the total result for the year is nil.

Consolidation

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

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

Turnover

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

Profits

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

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

The general principles for profit recognition are:

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

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

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

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

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.

Profits in respect of property developments are taken on unconditional exchange of contracts on disposals of finished developments. Profits taken are subject to any amounts necessary to cover residual commitments relating to development performance. Provision is made for any losses foreseen in completing a development. Interest costs are expensed as incurred except in relation to property developments where there is project specific financing in place.

1 Accounting policies continued

'Pre-contract Costs'

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

When financial close is achieved on PFI or PPP contracts, external costs are recovered from the PFI special purpose vehicle and 'Pre-contract Costs' are credited to the profit and loss account except to the extent that the Group retains a share in the PFI special purpose vehicle. That element is deferred and recognised over the life of the construction contract to which the costs relate. Success fees and financing arrangements, which are not generally material amounts, are deferred in full and recognised over the life of the financing in place for the special purpose vehicle.

Tangible fixed assets

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

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

Leased assets

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

Stock

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

Deferred taxation

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

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

Joint arrangements and joint ventures

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

Notes to the financial statements continued

2 Turnover, profit and segmental information

Segmental analysis of the results is shown below:

	Turnover		Operating profit		Profit before tax	
	2002 £m	2001 £m	**2002 £m**	2001 £m	**2002 £m**	2001 £m
Construction & Services	**1,218.4**	1,121.3	**12.5**	11.1	**20.8**	19.2
Homes & Property	**158.8**	126.1	**22.2**	16.2	**17.4**	11.2
Infrastructure Investment	**5.5**	3.7	**(0.6)**	(0.5)	**(0.2)**	(0.8)
Corporate Overhead/Finance	**–**	–	**(7.9)**	(5.5)	**(10.0)**	(7.7)
	1,382.7	1,251.1	**26.2**	21.3	**28.0**	21.9

	Net operating assets		Net assets	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Construction & Services	**(146.0)**	(110.3)	**60.7**	56.7
Homes & Property	**168.8**	103.0	**41.8**	30.8
Infrastructure Investment	**6.7**	5.5	**(1.6)**	(1.8)
Corporate Overhead/Finance	**(1.4)**	1.5	**(26.4)**	(27.9)
	28.1	(0.3)	**74.5**	57.8

Geographical analysis of the results is as follows:

	Turnover		Operating profit		Profit before tax	
	2002 £m	2001 £m	**2002 £m**	2001 £m	**2002 £m**	2001 £m
United Kingdom	**1,310.7**	1,149.4	**19.9**	22.2	**21.3**	23.0
Rest of World	**72.0**	101.7	**6.3**	(0.9)	**6.7**	(1.1)
	1,382.7	1,251.1	**26.2**	21.3	**28.0**	21.9

	Net operating assets		Net assets	
	2002 £m	2001 £m	**2002 £m**	2001 £m
United Kingdom	**29.5**	(8.9)	**69.7**	57.1
Rest of World	**(1.4)**	8.6	**4.8**	0.7
	28.1	(0.3)	**74.5**	57.8

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

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

Corporate Overhead/Finance operating profit and profit before tax for 2001 has been restated to reflect a change in presentation of PFI bidding costs and investment income which are now charged/credited to Infrastructure Investment.

2 Turnover, profit and segmental information continued

Profit on ordinary activities before taxation is stated after charging:

	2002 £m	2001 £m
Remuneration of auditors – audit fees	**0.6**	0.5
– other fees	**0.5**	0.2
Hire of plant and machinery	**24.2**	25.3
Operating lease rentals:		
Land and buildings	**1.3**	1.2
Plant and machinery	**6.9**	6.4
Depreciation of tangible fixed assets	**7.3**	7.6

Remuneration of the auditors in respect of the Company for audit amounted to £3,900 (2001: £3,800). Other fees paid to auditors relate to taxation compliance and advisory work and work in connection with acquisitions and disposals. No consultancy related work has been carried out by the auditors in either of the two years ended 30 June 2002.

In addition to the above £0.3m was paid to the Group auditors by joint ventures in which the Group has an interest (2001: £0.2m).

3 Net interest receivable – Group

	2002 £m	2001 £m
Interest receivable	**2.3**	1.9
Interest payable on bank loans, overdrafts and other loans	**(0.4)**	(0.9)
	1.9	1.0

4 Information relating to employees

	2002 No	2001 No
Average number of persons employed during the year including executive directors was:		
United Kingdom	**5,382**	5,012
Rest of World	**1,643**	1,671
	7,025	6,683

	£m	£m
Group staff costs are as follows:		
United Kingdom	**162.6**	136.3
Rest of World	**17.1**	15.8
	179.7	152.1
Wages and salaries	**155.9**	131.5
Social security costs	**11.6**	10.3
Other pension costs (note 6)	**12.2**	10.3
	179.7	152.1

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 41 to 44.

6 Pensions

a) SSAP 24 Pension costs

The principal UK pension scheme is the Kier Group Pension Scheme which includes a defined benefit section and a defined contribution plan. The assets of the Scheme are held under trust separately from those of the Group; the Trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers. Pension costs are assessed on the advice of an independent qualified actuary using the projected unit method and the following main assumptions for the financial year ending 30 June 2002:

- pension liabilities will be discounted at the rates of 7.0% pre-retirement and 6.0% per annum post-retirement (6.8% and 5.5% per annum respectively were adopted for the formal actuarial valuation as at 1 April 2000);
- salary increases will be 4.1% to 4.6% per annum (4.3% to 4.8% per annum was adopted for the formal actuarial valuation as at 1 April 2000);
- present and future pensions will increase at either 2.6% per annum (Limited Price Indexation) or at rates set in the Scheme rules (2.7% per annum was adopted for the formal actuarial valuation as at 1 April 2000);
- assets will be taken at market value (less an asset allocation adjustment of £10m).

Except as indicated above the same method and assumptions 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 surplus of £10m was carried forward as a margin against adverse future experience in the Scheme. In accordance with the recommendation of the actuary, the Company contributed to the Scheme at the rate of 14% of basic salaries over the year to 30 June 2002.

An approximate review of the Scheme was carried out as at 30 June 2001 for the purpose of determining the Group's pension cost under SSAP 24. At that date, the market value of the Scheme's assets was £308.2m, which represented 95% of members' accrued benefits after allowing for projected future increases in salaries.

The Group's pension charge to the final salary section of the Scheme calculated on the basis of the above review (which equalled the contribution paid during the year) amounted to £11.0m (2001: £9.8m).

The above pension cost is in respect of the final salary section of the Scheme. This section was closed to new entrants on 1 January 2002 with new joiners after that date being offered membership of the Retirement Savings Plan, a defined contribution arrangement. The Group is required to pay contributions in respect of those joiners in accordance with the rates specified in the Plan. The contributions paid to the Retirement Savings Plan during the year, and the pension charge amounted to £0.1m (2001: nil).

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

b) FRS 17 Retirement Benefits

The Accounting Standards Board has published an Exposure Draft of an amendment to FRS 17 'Retirement Benefits'. The proposed amendment extends the transitional arrangements in FRS 17 and therefore defers the mandatory requirement for its full adoption. The Accounting Standards Board intends to adopt a UK standard for pensions based upon the proposals of the International Accounting Standards Board.

The valuation used for FRS 17 disclosure has been based on the most recent actual valuation at 1 April 2000 updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the Scheme at 30 June 2002. The Scheme's assets are stated at their market values at 30 June 2002.

6 Pensions continued

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

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

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

	Long-term rate of return expected 2002 %	Long-term rate of return expected 2001 %	**Value 2002 £m**	Value 2001 £m
Equities	**8.00**	8.00	**178.5**	195.2
Corporate Bonds	**6.00**	6.25	**53.7**	52.0
Government Bonds	**5.00**	5.25	**64.6**	61.0
Total market value of assets			**296.8**	308.2
Present value of Scheme liabilities			**(362.9)**	(332.5)
Deficit in the Scheme			**(66.1)**	(24.3)
Related deferred tax asset			**19.8**	7.3
Net pension liability			**(46.3)**	(17.0)

The amount chargeable to operating profit and finance income for the year ended 30 June 2002 had FRS 17 been operative is as follows:

	2002 £m	**2002 £m**
Operating cost		
Service cost		**(10.3)**
Other finance items		
Interest on Scheme liabilities	**(19.5)**	
Expected return on Scheme assets	**22.3**	
		2.8
Pension costs under FRS 17		**(7.5)**

The net pension cost under FRS 17 of £7.5m compares with £11.0m charged to the accounts under SSAP 24. If FRS 17 had been adopted the profit and loss account would benefit by £3.5m for the year ended 30 June 2002.

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

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

6 Pensions continued

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

	Movement £m
Deficit in Scheme at 1 July 2001	(24.3)
Movement in year:	
Current service cost	(10.3)
Contributions	11.0
Other finance income	2.8
Actuarial loss	(45.3)
Deficit in Scheme at 30 June 2002	**(66.1)**

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

7 Taxation

a) Analysis of the charge in the year

	2002 £m	2001 £m
Current tax		
UK corporation tax on profits for the year at 30%	**6.6**	5.3
Adjustments in respect of previous years	**0.6**	–
Joint venture tax	**0.2**	0.3
Overseas tax	**0.2**	0.3
Total current tax (note 7b)	**7.6**	5.9
Deferred tax		
Origination and reversal of timing differences	**0.1**	–
Total deferred tax (note 15)	**0.1**	–
Total tax on profit on ordinary activities	**7.7**	5.9

b) Factors affecting the tax charge for the year

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

	2002 £m	2001 £m
Profit on ordinary activities before taxation	**28.0**	21.9
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**8.4**	6.6
Effects of:		
Expenses not deductible for tax purposes	**0.6**	0.4
Utilisation of tax losses	**(1.2)**	(1.2)
Profits offset by capital losses	**(0.5)**	–
Other	**(0.3)**	0.1
Adjustments to tax charge in respect of previous years – current tax	**0.6**	–
Current tax charge for the year	**7.6**	5.9

7 Taxation continued

c) Factors that may affect future tax charges

The Group expects to be able to continue to claim capital allowances in excess of depreciation over the short term. The Group has utilised brought forward tax losses, significantly reducing tax payments in recent years. £0.8m of tax losses remain.

8 Dividends

	2002 £m	2001 £m
Ordinary Shares		
Paid 4.5 pence (2001: 3.9 pence)	**1.5**	1.3
Proposed 9.7 pence (2001: 8.4 pence)	**3.3**	2.8
	4.8	4.1

9 Earnings per share

Earnings per share is calculated as follows:

	2002		2001	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Profit after tax	**20.3**	**20.3**	16.0	16.0
Less: profit on disposal of interest in subsidiary undertaking	**(0.7)**	**(0.7)**	–	–
Adjusted profit after tax	**19.6**	**19.6**	16.0	16.0
	million	**million**	million	million
Weighted average number of shares	**33.6**	**33.6**	33.2	33.2
Weighted average number of unexercised options – dilutive effect	**–**	**0.5**	–	0.4
Weighted average impact of LTIP	**–**	**0.4**	–	0.2
Weighted average number of shares used for EPS	**33.6**	**34.5**	33.2	33.8
	pence	**pence**	pence	pence
Earnings per share	**60.4**	**58.8**	48.0	47.1
Adjusted earnings per share (after excluding profit on disposal of interest in subsidiary undertaking)	**58.3**	**56.7**	48.0	47.1

10 Tangible fixed assets

Group	Land and buildings £m	Plant, vehicles & fixtures £m	Total £m
Cost			
At 1 July 2001	22.0	64.3	86.3
Additions	0.3	11.2	11.5
Acquisitions	–	0.3	0.3
Disposals	(0.1)	(8.3)	(8.4)
Currency realignments	–	(0.7)	(0.7)
At 30 June 2002	**22.2**	**66.8**	**89.0**
Accumulated depreciation			
At 1 July 2001	0.8	39.2	40.0
(Credit)/charge for the year	(0.2)	7.5	7.3
Acquisitions	–	0.1	0.1
Disposals	(0.1)	(6.6)	(6.7)
Currency realignments	–	(0.6)	(0.6)
At 30 June 2002	**0.5**	**39.6**	**40.1**
Net book value			
At 30 June 2002	**21.7**	**27.2**	**48.9**
At 30 June 2001	21.2	25.1	46.3

The net credit for the year of £0.2m for depreciation on land and buildings includes a £0.4m credit for the reversal of a property provision.

The net book value of land and buildings comprises freeholds of £20.5m (2001: £20.4m), long leaseholds of £0.8m (2001: £0.7m) and short leaseholds of £0.4m (2001: nil). The net book value of fixed assets includes an amount of £nil (2001: £0.5m) in respect of assets held under finance leases on which there is accumulated depreciation of £nil (2001: £2.7m).

The net book value of land and buildings includes investment properties carried at £3.9m (2001: £3.3m). An officer of a subsidiary of the Company has valued the investment property at 30 June 2002 concluding that there is no material difference between the carrying value and the open market value of the property.

11 Investments

a) Movements in year

	Group		Company	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Interest in subsidiary undertakings				
At 1 July	**–**	–	**54.6**	54.6
Additions	**–**	–	**0.2**	–
At 30 June	**–**	–	**54.8**	54.6
Investment in joint ventures				
At 1 July	**8.4**	3.7	**–**	–
Acquired during year	**16.5**	4.4	**–**	–
Share of retained profit	**0.6**	0.7	**–**	–
Unrealised profit	**–**	0.3	**–**	–
Dividends received	**–**	(0.9)	**–**	–
Currency alignment	**(0.3)**	0.2	**–**	–
At 30 June	**25.2**	8.4	**–**	–
Investment in associates				
Acquired during year	**2.5**	–	**–**	–
Share of retained loss	**(0.2)**	–	**–**	–
At 30 June	**2.3**	–	**–**	–
Own shares held by the Kier Group 1999 Employee Benefit Trust	**1.6**	1.1	**1.6**	1.1
Total investments	**29.1**	9.5	**56.4**	55.7

In 2001, there has been a reclassification between 'Debtors: Amounts falling due within one year' and 'Investments' of £1.1m.

b) Analysis of investment in joint ventures

	Group	
	2002 £m	2001 £m
Investment in joint ventures		
Fixed assets	**1.2**	1.3
Current assets	**141.9**	81.6
Gross assets	**143.1**	82.9
Creditors – amounts falling due within one year	**(10.6)**	(6.4)
Creditors – amounts falling due after more than one year	**(129.2)**	(72.5)
Gross liabilities	**(139.8)**	(78.9)
Loans provided to joint ventures	**21.9**	4.4
Total investment in joint ventures	**25.2**	8.4

Details of the Group's principal operating subsidiaries are given on page 71. Details of the Group's interest in joint ventures and associated undertakings are given on page 73.

On 12 April 2002, the Group and the Bank of Scotland each invested £15.8m in loan stock and contributed 50% of the equity (£1,000) to form a new joint venture, Kier Developments Limited. The company was formed to acquire the shares in Laing Property Developments Limited and additional properties held by Laing Group, together with the Bank of Scotland's interest in a 50/50 joint venture, Absolute Property Limited between Laing Property Developments and the Bank of Scotland.

On 5 October 2001 the Group invested in 49% of the Ordinary Share capital of Belan Limited, which acquired the partnership housing and timber frame business of Beazer Group Plc, for £0.4m and subordinated loan stock of £2.1m.

During the year the Kier Group 1999 Employee Benefit Trust acquired a further 90,000 Ordinary Shares in Kier Group at a cost of £0.5m (2001: 200,000 Ordinary Shares at a cost of £0.5m). The cumulative number of shares is 490,000 at a total cost of £1.6m (2001: 400,000 at a total cost of £1.1m).

Notes to the financial statements continued

12 Stock

	Group	
	2002 £m	2001 £m
Raw materials and consumables	**0.8**	1.5
Long-term contract balances	**31.9**	32.4
Land and work in progress held for development	**211.2**	123.4
Other work in progress	**7.4**	7.1
	251.3	164.4

Long-term contract balances and other work in progress is stated net of payments receivable on account of £8.0m (2001: £7.0m).

13 Debtors

	Group		Company	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Amounts falling due within one year:				
Trade debtors	**160.8**	168.8	**–**	–
Amounts recoverable on contracts	**22.0**	19.4	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**18.9**	8.4
Amounts receivable from joint ventures	**1.2**	–	**–**	–
Other debtors	**6.4**	4.6	**1.6**	1.3
Prepayments and accrued income	**3.3**	3.6	**–**	–
Corporation tax	**–**	–	**0.7**	0.5
Other taxation	**7.9**	4.3	**–**	–
	201.6	200.7	**21.2**	10.2
Amounts falling due after one year:				
Trade debtors	**–**	1.3	**–**	–
Amounts recoverable on contracts	**7.6**	10.0	**–**	–
	7.6	11.3	**–**	–
Total debtors	**209.2**	212.0	**21.2**	10.2

14 Creditors

	Group		Company	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Amounts falling due within one year:				
Bank loans and overdrafts	**2.8**	2.8	**34.4**	44.4
Payments received on account	**4.8**	9.1	**–**	–
Trade creditors	**345.0**	278.8	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**20.4**	20.5
Proposed dividend	**3.3**	2.8	**3.3**	2.8
Corporation tax	**4.0**	3.5	**–**	–
Other taxation and social security costs	**10.7**	14.1	**–**	–
Other creditors	**8.8**	8.5	**2.6**	2.3
Accruals and deferred income	**108.8**	97.2	**–**	–
	488.2	416.8	**60.7**	70.0

14 Creditors continued

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Amounts falling due after more than one year:				
Trade creditors	**13.2**	7.8	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**12.5**	13.8
Accruals and deferred income	**4.8**	5.0	**–**	–
	18.0	12.8	**12.5**	13.8

The amount of £12.5m (2001: £13.8m) 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 2001	1.9	3.8	5.7
Profit and loss account	0.1	3.0	3.1
Utilised in year	–	(1.8)	(1.8)
At 30 June 2002	**2.0**	**5.0**	**7.0**

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

	2002 £m	2001 £m
Accelerated capital allowances	**1.7**	1.4
Short-term timing differences	**0.3**	0.5
Undiscounted provision for deferred tax	**2.0**	1.9
Opening provision at 1 July	**1.9**	1.9
Deferred tax charge in profit & loss account for year (note 7)	**0.1**	-
Closing provision at 30 June	**2.0**	1.9

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 2002 £m	Land and buildings 2001 £m	Plant and machinery 2002 £m	Plant and machinery 2001 £m
Operating leases expiring:				
Within one year	**0.1**	–	**1.1**	0.8
Between one and five years	**0.4**	0.6	**4.9**	5.2
In five years or more	**0.8**	0.7	**0.5**	0.5
	1.3	1.3	**6.5**	6.5

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 2002, the Group has short-term cash and overdrafts denominated in the following currencies:

	2002 Financial assets £m	2002 Financial liabilities £m	2002 Aggregate £m	2001 Financial assets £m	2001 Financial liabilities £m	2001 Aggregate £m
Currency						
Sterling	**34.5**	**(0.5)**	**34.0**	46.6	(2.8)	43.8
US Dollar	**1.8**	**(2.3)**	**(0.5)**	2.9	–	2.9
Hong Kong Dollar	**11.8**	**–**	**11.8**	9.9	–	9.9
Other	**1.1**	**–**	**1.1**	1.5	–	1.5
Total	**49.2**	**(2.8)**	**46.4**	60.9	(2.8)	58.1

	Book value £m	Fair value £m
Forward rate contracts		
Euro (23.9m) forward sale and US $ (10.5m) forward purchase	–	(0.4)

The Group has £27.5m of unsecured committed borrowing facilities due for renewal on 14 January 2003, £17.5m of unsecured committed borrowing facilities due for renewal on 16 January 2004 and £15.0m of unsecured committed borrowing facilities due for renewal on 5 October 2004.

18 Share capital

The share capital of the Company comprises:

	2002 No	2002 £m	2001 No	2001 £m
Ordinary Shares of 1p each				
Authorised	**45,000,000**	**0.4**	45,000,000	0.4
Issued and fully paid	**34,450,069**	**0.3**	33,944,436	0.3

During the year 505,633 Ordinary Shares were issued at a total premium of £1.7m, of which 231,751 were issued as a scrip dividend alternative at a premium of £1.2m.

As at 30 June 2002 there were options outstanding to subscribe for Ordinary Shares as follows:

	No	Period exercisable	Option price
Sharesave	603,210	2003	250p
Performance related	176,466	1999-2006	170p
Performance related	12,000	2001-2008	250p
Performance related	52,000	2001-2008	189.5p

Long-term incentive plan

At 30 June 2002 the Kier Group 1999 Employee Benefit Trust had acquired 490,000 Ordinary Shares in Kier Group at a cost of £1.6m. The market value of these shares as at 30 June 2002 was £2.9m. 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 2001	12.0	–	2.7	42.8
Issue of shares	1.7	–	–	–
Profit for the year	–	–	–	20.3
Currency translation	–	–	–	(0.5)
Dividends	–	–	–	(4.8)
At 30 June 2002	**13.7**	**–**	**2.7**	**57.8**

The cumulative amount charged to profit and loss reserve in respect of goodwill is £9.1m (2001: £9.1m).

Company	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Profit & loss £m
At 1 July 2001	12.0	1.2	2.7	8.9
Issue of shares	1.7	–	–	–
Profit for the year	–	–	–	5.0
Dividends	–	–	–	(4.8)
At 30 June 2002	**13.7**	**1.2**	**2.7**	**9.1**

20 Cash flow notes

a) Reconciliation of operating profit to operating cash flows

	2002 £m	2001 £m
Group operating profit	**24.8**	19.9
Depreciation charges	**7.3**	7.6
(Increase) in stocks	**(48.5)**	(14.9)
Decrease/(increase) in debtors	**3.7**	(27.3)
Increase in creditors	**62.3**	52.6
Increase in provisions	**0.4**	0.6
Net cash inflow from operating activities	**50.0**	38.5

b) Analysis of changes in net funds

	1 July 2001 £m	Movement £m	30 June 2002 £m
Cash at bank and in hand	50.6	(18.1)	**32.5**
Bank overdrafts	(2.8)	–	**(2.8)**
Short-term bank deposits	10.3	6.4	**16.7**
	58.1	(11.7)	**46.4**

Net funds include £18.7m (2001: £23.3m) being the Group's share of cash and liquid resources held by joint arrangements.

20 Cash flow notes continued

c) Acquisitions and disposals

	2002 £m	2001 £m
Sale of interest in subsidiary undertaking (proceeds)	**1.5**	–
Sale of interest in subsidiary undertaking (cash)	**(1.2)**	–
Investment in subsidiary undertaking (assets)	**(15.8)**	–
Investment in subsidiary undertaking (overdraft)	**(9.5)**	–
Investment in associate	**(2.5)**	–
Investment in joint ventures	**(16.5)**	(4.4)
	(44.0)	(4.4)

Acquisition of Allison Homes

On 12 September 2001, the Group announced the acquisition of the business of Allison Homes. The consideration, payable wholly in cash, was £18.0m representing the value of the net assets acquired. £12.8m was paid on 12 September 2001, further payments of £3.0m were paid in the year ended 30 June 2002 with the balance of £2.2m due in three instalments by April 2003.

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

	Book and fair value £m
Tangible assets	**0.1**
Stock	**38.4**
Debtors	**0.7**
Creditors	**(11.7)**
Net borrowings	**(9.5)**
Total consideration payable	**18.0**
Deferred as at 30 June 2002	**(2.2)**
Paid as at 30 June 2002	**15.8**

The results of the business of Allison Homes since acquisition to 30 June 2002 are shown below:

	12 September 2001 to 30 June 2002 £m
Turnover	25.0
Cost of sales	(19.3)
Gross profit	5.7
Administrative expenses	(1.6)
Operating profit	4.1

Investment in Belan Limited (Associate)

On 5 October 2001 the Group invested in 49% of the ordinary share capital of Belan Limited, which acquired the partnership housing and timber frame business of Beazer Group Plc, for £0.4m and subordinated loan stocks of £2.1m.

20 Cash flow notes continued

Investment in Kier Developments Limited (Joint Venture)

On 12 April 2002, the Group and the Bank of Scotland each invested £15.8m in loan stock and contributed 50% of the equity (£1,000) to form a new joint venture company Kier Developments Limited. The company was formed to acquire the shares in Laing Property Developments Limited and additional properties held by Laing Group, together with the Bank of Scotland's interest in a 50/50 joint venture, Absolute Property Limited, between Laing Property Developments and the Bank of Scotland.

Sale of interest in Kier Hong Kong Limited (subsidiary)

On 12 March 2002 Kier International Limited sold 51% of its investment, which included cash balances of £1.2m, in Kier Hong Kong Limited for £1.5m realising a profit on sale of £0.7m.

21 Capital commitments

Group	2002 £m	2001 £m
Contracted for but not provided in the accounts	**1.5**	1.4

22 Transactions with related parties

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

	2002 £m	2001 £m
Construction services and materials	**58.0**	31.0
Staff and associated costs	**9.2**	6.0
Management services	**2.7**	1.5
	69.9	38.5
Purchase of property	**–**	14.9

Amounts due from related parties are analysed below:

	2002 £m	2001 £m
Prospect Healthcare (Hairmyres) Limited	**4.7**	1.0
Prospect Healthcare (Reading) Limited	**0.6**	0.9
Baglan Moor Healthcare PLC	**1.7**	–
Information Resources (Bournemouth) Limited	**0.8**	–
Academy Services (Tendring) Limited	**0.8**	–
Belan Limited	**2.5**	–
Kier Warth Limited	**–**	0.7
Kier Developments Limited	**15.8**	–
Kier Besix joint arrangement	**0.1**	0.7
	27.0	3.3

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

Kier National Limited
Kier Build Limited
Kier Construction Limited
Kier International Limited
Kier Plant Limited

Caxton Integrated Services Holdings Limited
Caxton Facilities Management Limited
Caxton Integrated Services Limited
Caxton Islington Limited
Caxton Consulting

Homes & Property

Kier Residential Limited
Allison Homes Eastern Limited
Bellwinch Homes Limited
Kier Homes Limited
Kier Land Limited
Twigden Homes Limited

Kier Property Limited
Kier Commercial Investments Limited
Kier Ventures Limited

Group Services and Infrastructure 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, the Caribbean, the Americas and Romania.

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

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

Principal joint arrangements, joint ventures & associated undertakings

Joint arrangements

Building and/or civil engineering construction

The following joint arrangements, in which the Group participation is between 33% and 63%, operate in England

Miller/Kier	a joint arrangement between The Miller Group Limited and Kier Construction Limited
Kier/Nuttall	a joint arrangement between Kier Construction Limited and Edmund Nuttall Limited
Nuttall/Wayss/ & Freytag/Kier	a joint arrangement between Edmund Nuttall Limited, Wayss & Freytag Ingenieurbau and Kier Construction Limited
Kier/Idec	a joint arrangement between Kier Construction Limited and Idec Limited
Kier/Murphy/ Interserve	a joint arrangement between Kier Construction Limited, J Murphy & Sons Limited and, Interserve Project Services Limited

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

Hong Kong	
Hyundai/Kier	a joint arrangement between Kier International Limited and Hyundai Engineering & Construction Co Limited
Kier/Zen	a joint arrangement between Kier International 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
Jamaica	
Kier/CCC	a joint arrangement between Kier International Limited and Commercial Contracting Company of San Antonio Inc
Kier/Mabey	a joint arrangement between Kier International Limited and Mabey & Johnson Limited
Mexico	
Kier/CCC	a joint arrangement between Kier International Limited and CCC Group Inc
Romania	
Mivan/Kier	a joint arrangement between Kier International Limited and Mivan Limited
United States	
Kier/CCC	a joint arrangement between Kier International Limited and CCC Group Inc

Commercial Property Development

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

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

NOTES:

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

Associated undertakings	Interest held
Belan Limited	49%

Group principal businesses

Kier Regional
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

M P W Scarth *Chairman*
R W Side MD
C R W Busby
P P J Cullen
M J Desmond
J S French
S A Tilley
R J C Turner
M Wright

Kier London
188 High Road
Loughton
Essex
IG10 1DH

M P W Scarth *Chairman*
P J Everard MD
D R Avery
G Garvie
N W Meixner
C J Riley

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

S A Tilley *Chairman & MD*
M A Ashton
J M Gray
W Kay

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

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

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

R W Side *Chairman*
J J Armitage *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*
I M Lawson *MD*
R W Kidger
B J Painter
C J Riley
J C Simson

Marriott Construction
Marriott House
Rushden
Northamptonshire
NN10 6EA

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

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

S A Tilley *Chairman*
L Wilkinson *MD*
M A Ashton
J Entwistle
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

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

Kier Scotland
Cathkin House
15 Woodside Terrace
Glasgow
G3 7XH

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

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 Integrated Services
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

M P W Scarth *Chairman*
J R Bradley *MD*
D E Angus
N J Chidgey
P D Farnan
K J McCarthy
C Thomas

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

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

FM Contract Services
Thames Road
Crayford
Kent
DA1 5QJ

J R Bradley *Chairman*
K J McCarthy *MD*
C Thomas

Caxton Islington
Ashburton Grove
Holloway
London
N7 7AA

J R Bradley *Chairman*
J Nelson *MD*
A Gibbons
K J McCarthy
T C Tatham
C Thomas

Caxton Consulting
Maple House
High Street
Potters Bar
Hertfordshire
EN6 5BS

J R Bradley *Chairman*
N J Chidgey *MD*
J Lunn
G Vickers

Kier National
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman & MD*
C R W Busby
R Gorringe
R A Haller
R V Sallis
M P Sheffield
P J Staniland

Kier International
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
R A Haller *MD*
D J Durey
N W Hammond
D J Myers
D Rainford

Kier Build
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
R V Sallis *MD*
T P Davies
M Dobson
J H Fozzard
W G Merry
A J Simm
M R Whiteley
C Willats

Kier Construction
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
M P Sheffield *MD*
G R Burn
P J Cave
P H Gray
N A Pates
A W Saul
T W Tagg

Kier Plant
The Lane
Chawston
Bedfordshire
MK44 3BH

J Dodds *Chairman*
A E Arnaud *MD*
G R Burn

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

C R W Busby *Chairman*
D Homer *MD*
K Dixon
L E Garner
R W Gregory
D E Mattar
R P Page
W R Reid

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

D Homer *Chairman*
R W Gregory *MD*
P Adams
L E Garner
M Jessop
S W Robinson
A R West

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

D Homer *Chairman*
W R Reid *MD*
D Cope
A Duffy
L E Garner
L J Hope

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

D Homer *Chairman*
K Dixon *MD*
L E Garner
I J Mitchell

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

D Homer *Chairman*
K Dixon *MD*
G D Baker
L E Garner
J G Hodgetts
A E Page
A P Walkerdine
A B Walsh

Bellwinch Homes
Malcolm House
Empire Way
Wembley
Middlesex
HA9 0LW

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

Kier Project Investment
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

J Dodds *Chairman*
J A J Byrne *MD*
G Barnes
C R W Busby
D E Mattar
J A N Tibbitts
J A Young

Kier Property
Berkeley Square House
Berkeley Square
London
W1J 6BD

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

Kier Ventures
Berkeley Square House
Berkeley Square
London
W1J 6BD

C R W Busby *Chairman*
R W Simkin *MD*
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

Financial record

Year ending 30 June	**2002 £m**	2001 £m	2000 £m	1999 £m	1998 £m
Turnover: Group and share of joint ventures	**1,382.7**	1,251.1	1,034.8	962.9	749.6
Group operating profit	**24.8**	19.9	15.2	10.9	7.5
Joint ventures – share of operating profit	**1.4**	1.4	0.4	1.7	0.8
Total net interest receivable	**1.1**	0.6	1.3	1.2	2.5
Other income	**0.7**	–	0.8	–	–
Profit before tax	**28.0**	21.9	17.7	13.8	10.8
Taxation	**(7.7)**	(5.9)	(4.6)	(3.9)	(3.6)
Profit after tax	**20.3**	16.0	13.1	9.9	7.2
Dividends	**(4.8)**	(4.1)	(3.5)	(3.0)	(2.6)
Retained profit for the year	**15.5**	11.9	9.6	6.9	4.6
Earnings per Ordinary Share					
– undiluted	**60.4p**	48.0p	39.8p	30.6p	22.7p
Dividend per Ordinary Share	**14.2p**	12.3p	10.7p	9.3p	8.0p

At 30 June	**2002 £m**	2001 £m	2000 £m	1999 £m	1998 £m
Shareholders' funds	**74.5**	57.8	44.5	33.5	25.8
Net assets per Ordinary Share	**216.3p**	170.3p	133.1p	102.5p	80.1p

Corporate information

Directors
C R W Busby FCA FCIOB *Chairman*
J Dodds
D Homer
D E Mattar BSc FCA
M P W Scarth MICE MCIOB
P F Berry CMG MA
S W Leathes MA FCA
P T Warry MA LLB

D E Mattar *Secretary*

Headquarters and Registered Office
Kier Group plc
Tempsford Hall
Sandy
Bedfordshire SG19 2BD

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www.kier.co.uk

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England 2708030

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KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Bankers
Royal Bank of Scotland PLC
135 Bishopsgate
London EC2M 3UR

Barclays Bank plc
54 Lombard Street
London EC3V 9EX

Registrars
Capita IRG Plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Stockbrokers
ING Barings Limited
60 London Wall
London EC2M 5TQ

Financial calendar

30 November 2002	Annual General Meeting
10 December 2002	Payment of final dividend for 2001/2002
March 2003	Announcement of results for the half year and interim dividend
May 2003	Payment of interim dividend
September 2003	Announcement of preliminary full year results and final dividend for 2002/2003

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Kier Group plc

annual report and accounts for the year ended 30 June 2002