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

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Kier Group plc for the year ended 30 June 2014 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated and Company Balance Sheet; and, the Consolidated Cash Flow Statement and related notes. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

Profit recognition on Contracts

Refer to page 63 (Risk Management and Audit Committee Report), page 98 (accounting policy) and page 104 (financial disclosures).

- **The risk:** The Group has significant long-term contracts in both the Construction and Services divisions. The recognition of profit on construction and long-term services contracts in accordance with IAS 11 is based on the stage of completion of contract activity. This is assessed by reference to the proportion of contract costs incurred for the work performed at the balance sheet date relative to the estimated total costs of the contract at completion.

  Profit on contracts is a key risk for our audit because of the judgement involved in preparing suitable estimates of the forecast costs and revenue on contracts. An error in the contract forecast could result in a material variance in the amount of profit or loss recognised to date and therefore also in the current period.

  The forecast profit on contracts includes key judgements over the expected recovery of costs arising from the following: variations to the contract requested by the customer, compensation events, and claims made against the contractor for delays or other additional costs for which the customer is liable. The inclusion of these amounts in the contract forecast where they are not recoverable could result in a material error in the level of profit or loss recognised by the Group.

The inclusion of these amounts in the contract forecast where they are not recoverable could result in a material error in the level of profit or loss recognised by the Group.

- **Our response:** We used a variety of quantitative and qualitative factors to select those contracts with a higher risk of material error based on their size or the complexity of contract accounting estimates for detailed testing. Our audit procedures included but were not limited to:
  - assessing whether the amounts recognised in the financial statements were in line with the Group's accounting policy, including relevant accounting standards, and whether they represented a balanced view of the risks and opportunities in respect of the forecast profit to completion. We challenged senior operational, commercial and financial management's judgement by obtaining and assessing information to support the forecast assumptions. These assumptions included the expected recovery of variations, claims and compensation events included in the forecast, and the historical financial performance and forecast out-turn against budget of other contracts of a similar nature and size and industry knowledge;
  - inspecting correspondence and meeting minutes with customers concerning variations, claims and compensation events, and obtaining third party assessments of these from legal or technical experts contracted by the Group, if applicable to assess whether this information was consistent with the estimates made by senior operational, commercial and financial management, including any pain/gain share arising as a result of the recognition of compensation events in the forecast contract outcome. Where legal or technical experts were contracted by the Group and we sought to use the work of that expert, we evaluated the professional competence and objectivity of the expert;
  - performing site visits to physically inspect the stage of completion of certain individual projects and identify areas of complexity through observation and discussion with site personnel;
  - inspecting the selected signed contracts for key clauses to identify relevant contractual mechanisms such as the sharing of cost overruns or efficiencies with the customer, contractual damages and success fees and assess whether these key clauses have been appropriately reflected in the amounts included in the forecasts;
  - inspecting correspondence and meeting minutes with insurers relating to recognised insurance claims as well as assessments of these undertaken by the insurer's and Group's legal or technical experts where applicable to assess whether this information supported the position taken on the contract;
  - evaluating a sample of forecast costs for reasonableness by reviewing the basis of their calculation, which included supplier quotes, forecast estimates and supplier contracts and challenging senior operational, commercial and financial management where there were differences to identify forecast errors, including inappropriate assumptions based on historical performance and industry knowledge;
  - considering the adequacy of the Group's disclosures in respect of the judgements taken with respect to profit recognition and the key risks relating to these amounts and to any individually significant contracts, including specifically the Castlepoint contract.

Valuation of land and stock units

Refer to page 63 (Risk Management and Audit Committee Report), page 101 (accounting policy) and pages 119 (financial disclosures)

- **The risk:** Inventories, which principally comprise the Group's land held for development and work in progress, are stated at the lower of cost and net realisable value (i.e. the forecast selling price less the remaining costs to build and sell). An assessment of the net realisable value of inventory is carried out at each balance sheet date and is dependent upon the Group's estimate of forecast selling prices and build costs (by reference to current prices), which may require significant judgement. Further, build costs are subject to a number of variables including the accuracy of designs, market conditions in respect of materials and sub-contractor cost and construction issues. Accordingly, a change in the Group's forecast estimate of sales price and build cost could have a material impact on the carrying value of inventories in the Group's financial statements. Whilst residential values are generally improving, there remains a risk that residential and development projects are valued at cost exceeding recoverable value.

- **Our response:** For land held for development, our audit work was focused on sites where gross margin was forecast to be less than 10% for inventory sales because these sites are considered to have the most sensitivity to management's estimates. Our audit procedures included, among others:
  - challenging the Group's forecast sales prices by comparing the forecast sales price of a sample of inventory to sales prices achieved and the list prices of comparable assets as published by estate agents;

- challenging the Group's forecast of build cost per square foot by comparing to the build costs for similar units on other sites and where there were differences, corroborating senior operational, commercial and financial management's explanations to third party confirmations including correspondence with suppliers and comparable properties on other sites.

For work in progress, our audit work was focused using quantitative factors and where cost versus net realisable value headroom was considered to have the most sensitivity to management's estimates in calculating net realisable value. Our audit procedures included, among others:

- discussing significant work in progress balances with relevant project managers to identify the key drivers behind appraisal forecasts and net realisable values such as forecast yields and cost plans;
- challenging management's key assumptions relating to estimated sales revenue and costs by comparing the forecast yields applied to comparable market evidence including evaluating the sensitivity of the margin to a change in sales prices and costs and considering whether this indicated a risk of impairment where required. For projects involving large sites or split across multiple phases, we assessed the appropriateness of the allocation of site-wide or project-wide costs.

We also assessed the disclosures on page 119 regarding the key judgements and estimates in determining net realisable value of land and work in progress.

Assessment of the fair value provisions arising on the May Gurney acquisition

Refer to page 63 (Risk Management and Audit Committee Report), page 103 (accounting policy) and pages 130 (financial disclosures).

- **The risk:** In July 2013, the Group acquired May Gurney for a total consideration of £222m. Accounting for this significant acquisition involved recognition and measurement of assets acquired and liabilities assumed as part of the acquisition. The acquisition was an non-adjusting post balance sheet event per IAS 10, but the 2013 financial statements disclosed the initial accounting for the acquisition. Due to the proximity of the timing of the acquisition to the reporting date, the acquisition accounting was incomplete. During the year ended 30 June 2014, the Group became aware of additional information about facts and circumstances that existed at the acquisition date. As such a number of measurement period adjustments were made to the provisional amounts, the most material adjustments relating to contract provisions.

  The measurement of the fair value of contract provisions for the May Gurney acquisition involved significant judgements in relation to the assumptions applied to forecasting and discounting future cash flows. Due to the inherent uncertainties in timing and quantities of these future cash flows, particularly the quantity of annual spend on specific contracts and the outcome of any claims, which form an integral part of the fair value model, this is one of the key judgemental areas that our audit concentrated on.

- **Our response:** Our audit procedures over the acquisition date fair values, and particularly in relation to the off-market contract provision, included but were not limited to:

  - discussing with senior operational, commercial and financial management and challenge of the contract assumptions and judgements, such as profitability, claims and cash flow timings, used to determine the carrying amount of the fair value model;
  - assessing the completeness and quantum of adjustments made by management against our own expectations, formed from review of the due diligence reports prepared during the acquisition, an independent report on fair values prepared post-acquisition for management, our understanding of May Gurney's particular circumstances from the audit, and our knowledge and experience of the industry and understanding of May Gurney's particular circumstances;
  - comparing the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth and cost inflation, in addition to testing the sensitivity of the values produced by the model to changes in certain inputs and assumptions, in order to derive comfort over the principles underpinning the model;
  - performing procedures over the integrity of the design and build of the model, including verifying that formulae worked as intended; and
  - considering the adequacy of disclosures made to allow users to evaluate the financial effects of adjustments recognised.

Carrying amount of goodwill in relation to the May Gurney acquisition

Refer to page 63 (Risk Management and Audit Committee Report), page 103 (accounting policy) and pages 115 (financial disclosures).

- **The risk**: As detailed in Note 12 of the financial statements, the Group's key Cash Generating Units (CGUs) are Construction, Services and Property. The majority of the Group's goodwill is in relation to the acquisition of May Gurney Integrated Services Public Limited Company. The majority (97%) of goodwill recognised from the acquisition of May Gurney has been allocated to the Services division with the remainder (3%) allocated to the Construction division. The Group goodwill impairment testing is performed with reference to value in use which is measured by the present value of the cash flow forecasts expected to be derived in the respective CGUs.

  The services industry has experienced rising costs, local authority budget cuts / moving services back in-house and more competitive pricing in the market. This, coupled with subdued demand due to the economic recession in recent times has resulted in a depressed growth environment. Therefore there is a risk that sufficient cash flows will not be generated within the Services CGU to support the carrying amount of goodwill.

  Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas that our audit concentrated on.

- **Our response:** In this area our audit procedures included, among others, testing of the principles and integrity of the Group's discounted cash flow model. We did this by agreeing key inputs such as contract renewal dates, capital and operating costs and profitability to underlying contracts, our knowledge of the Group and industry and historical outcomes. We also assessed the probability of contracts being won, renewed or lost through discussion with the directors.

  We challenged the appropriateness of key assumptions used by the Group in impairment testing (discount rate, growth rate, and inflation) by comparing these to externally available market data for reasonableness. We performed a sensitivity analysis for the key assumptions which included growth rate, operating costs and discount rate. We also assessed whether or not the assumptions showed any evidence of management bias with a particular focus on the risk that the cash flow forecasts may not support the carrying value of goodwill.

  We considered the adequacy of the Group's disclosures and the requirements of accounting standards in respect of impairment testing, disclosure of sensitivity of the headroom to key assumptions and disclosure of the key judgments taken by management in the cash flow forecasts and impairment review.

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

Presentation of non-underlying amounts

Refer to page 63 (Risk Management and Audit Committee Report), page 103 (accounting policy) and page 106 (financial disclosures).

- **The risk:** In order to give a better understanding of the underlying performance of the business, management have presented a view of the underlying results of the Group, with separate disclosure of 'non-underlying items'. There is a risk that items are included within this caption not in accordance with clearly disclosed Group accounting policies and relevant accounting standards, and therefore the 'underlying' result is misstated, and that the items included here are not clearly set out or are inconsistently included, and therefore the 'underlying' result is not understandable.
- **Our response:** In this area our audit procedures included but were not limited to:
  - Considering whether the Group finance team have consistently identified non-underlying items by comparing the nature of current year items with those included within the caption in prior years;
  - Critically assessing the consistency and presentation of specific items taking into account the Group's policy;
  - Considering the appropriateness, by reference to accounting standards, of the individual items presented within non-underlying items and therefore excluded from underlying items; and
  - Considering the adequacy of the Group's disclosures about the items included within this caption in note 4 (non-underlying items) and the related accounting policies for these categories on page 106.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £3.9m. This has been determined with reference to a benchmark of Group profit before taxation excluding non-underlying items (of which it represents 6.3 %) which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the Risk Management and Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £195,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

- Audits for Group reporting purposes were performed by component auditors at the key reporting components in the UK and by the Group audit team in the UK. These Group procedures covered 97% of total Group revenue. The segment disclosures in note 2 set out the individual significance of specific segments.
- The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the Group audit team. These materiality levels were set individually for each component and ranged from £0.45m to £3.9m.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Statement set out on page 56 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Risk Management and Audit Committee Report does not appropriately address matters communicated by us to the Risk Management and Audit Committee.

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

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

Under the Listing Rules we are required to review:

- The directors' statement, set out on page 89, in relation to going concern;
- The part of the Corporate Governance Statement on page 56 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review; and
- We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 89, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Michael Froom (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor Chartered Accountants

15 Canada Square
London
E14 5GL

17 September 2014

Consolidated income statement
For the year ended 30 June 2014

	Notes	2014 Underlying items £m	2014 Non-underlying items including amortisation of intangible contract rights* £m	2014 Total £m	2013 Underlying items*† £m	2013 Non-underlying items including amortisation of intangible contract rights* £m	2013 Total† £m
Revenue							
Group and share of joint ventures	2	**2,985.2**	**–**	**2,985.2**	1,982.8	–	1,982.8
Less share of joint ventures	2	**(30.9)**	**–**	**(30.9)**	(39.8)	–	(39.8)
Group revenue		**2,954.3**	**–**	**2,954.3**	1,943.0	–	1,943.0
Cost of sales		**(2,699.5)**	**(3.5)**	**(2,703.0)**	(1,739.8)	(9.4)	(1,749.2)
Gross profit		**254.8**	**(3.5)**	**251.3**	203.2	(9.4)	193.8
Administrative expenses		**(174.5)**	**(49.5)**	**(224.0)**	(158.4)	(11.0)	(169.4)
Share of post-tax results of joint ventures	14	**1.6**	**–**	**1.6**	0.9	–	0.9
Profit on disposal of joint ventures	30d	**6.1**	**–**	**6.1**	9.8	–	9.8
Profit from operations	2	**88.0**	**(53.0)**	**35.0**	55.5	(20.4)	35.1
Finance income	5	**2.2**	**–**	**2.2**	2.3	–	2.3
Finance cost	5	**(17.1)**	**(5.3)**	**(22.4)**	(10.2)	(1.3)	(11.5)
Profit before tax	2	**73.1**	**(58.3)**	**14.8**	47.6	(21.7)	25.9
Taxation	9a	**(13.9)**	**9.8**	**(4.1)**	(5.1)	4.8	(0.3)
Profit for the year		**59.2**	**(48.5)**	**10.7**	42.5	(16.9)	25.6
Attributable to:							
Owners of the parent		**58.5**	**(48.5)**	**10.0**	41.5	(16.9)	24.6
Non-controlling interests	12	**0.7**	**–**	**0.7**	1.0	–	1.0
		59.2	**(48.5)**	**10.7**	42.5	(16.9)	25.6
Earnings per share							
– basic	11	**107.7p**	**(89.3)p**	**18.4p**	105.6p	(43.0)p	62.6p
– diluted	11	**106.9p**	**(88.6)p**	**18.3p**	104.5p	(42.5)p	62.0p

* Non-underlying items include one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition. The prior year comparatives have been re-presented to reflect this presentation (see note 4).

† Restated on adoption of the amendment to IAS 19 (see note 31).

Consolidated statement of comprehensive income
For the year ended 30 June 2014

	Notes	2014 £m	2013† £m
Profit for the year		**10.7**	25.6
Items that may be reclassified subsequently to the income statement			
Currency translation differences		**(4.0)**	0.2
Share of joint venture fair value movements in cash flow hedging instruments	14	**15.1**	4.7
Tax on share of joint venture fair value movements in cash flow hedging instruments	9c	**(3.6)**	(1.7)
Fair value movements in cash flow hedging instruments		**(1.7)**	–
Tax on fair value movements in cash flow hedging instruments	9c	**0.3**	–
Total items that may be reclassified subsequently to the income statement		**6.1**	3.2
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit liabilities	8	**(18.7)**	(7.1)
Tax on actuarial losses on defined benefit liabilities	9c	**(4.9)**	(1.2)
Tax on provisions	9c	**(1.9)**	–
Total items that will not be reclassified to the income statement		**(25.5)**	(8.3)
Other comprehensive loss for the year		**(19.4)**	(5.1)
Total comprehensive (loss)/income for the year		**(8.7)**	20.5
Attributable to:			
Owners of the parent		**(9.4)**	19.5
Non-controlling interests		**0.7**	1.0
		(8.7)	20.5

Consolidated statement of changes in equity
For the year ended 30 June 2014

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Merger reserve £m	Attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 30 June 2012	0.4	55.0	2.7	110.0	(16.0)	0.2	–	**152.3**	1.9	**154.2**
Profit for the year	–	–	–	24.6†	–	–	–	**24.6†**	1.0	**25.6†**
Other comprehensive (loss)/income	–	–	–	(8.3)†	3.0	0.2	–	**(5.1)†**	–	**(5.1)†**
Dividends paid	–	–	–	(25.8)	–	–	–	**(25.8)**	(0.4)	**(26.2)**
Issue of own shares	–	8.3	–	–	–	–	–	**8.3**	–	**8.3**
Purchase of own shares	–	–	–	(1.7)	–	–	–	**(1.7)**	–	**(1.7)**
Share-based payments	–	–	–	4.0	–	–	–	**4.0**	–	**4.0**
Tax on share-based payments	–	–	–	(0.8)	–	–	–	**(0.8)**	–	**(0.8)**
At 30 June 2013	0.4	63.3	2.7	102.0	(13.0)	0.4	–	**155.8**	2.5	**158.3**
Profit for year	–	–	–	10.0	–	–	–	**10.0**	0.7	**10.7**
Other comprehensive (loss)/income	–	–	–	(25.5)	10.1	(4.0)	–	**(19.4)**	–	**(19.4)**
Dividends paid	–	–	–	(37.3)	–	–	–	**(37.3)**	(0.2)	**(37.5)**
Issue of own shares	0.2	10.4	–	–	–	–	183.6	**194.2**	–	**194.2**
Purchase of own shares	–	–	–	(1.1)	–	–	–	**(1.1)**	–	**(1.1)**
Share-based payments	–	–	–	4.0	–	–	–	**4.0**	–	**4.0**
Tax on share-based payments	–	–	–	0.5	–	–	–	**0.5**	–	**0.5**
Transfers	–	–	–	(1.2)	–	–	1.2	**–**	–	**–**
At 30 June 2014	**0.6**	**73.7**	**2.7**	**51.4**	**(2.9)**	**(3.6)**	**184.8**	**306.7**	**3.0**	**309.7**

† Restated on adoption of the amendment to IAS 19 (see note 31).

Consolidated balance sheet
At 30 June 2014

	Notes	2014 £m	2013 £m
Non-current assets			
Intangible assets	12	**323.8**	30.0
Property, plant and equipment	13	**192.4**	109.2
Investment in joint ventures	14	**40.9**	29.7
Deferred tax assets	15	**1.8**	23.5
Trade and other receivables	18	**23.5**	29.6
Non-current assets		**582.4**	222.0
Current assets			
Inventories	16	**470.4**	399.4
Trade and other receivables	18	**586.4**	345.6
Corporation tax receivable		**7.5**	9.3
Assets held for sale	19	**10.4**	4.2
Cash and cash equivalents	20	**112.4**	152.3
Current assets		**1,187.1**	910.8
Total assets		**1,769.5**	1,132.8
Current liabilities			
Borrowings	20	**(39.8)**	–
Finance lease obligations	21	**(27.6)**	(2.7)
Other financial liabilities	27	**(0.1)**	(0.1)
Trade and other payables	22	**(982.7)**	(754.5)
Provisions	23	**(27.9)**	(17.6)
Current liabilities		**(1,078.1)**	(774.9)
Non-current liabilities			
Borrowings	20	**(195.4)**	(92.5)
Finance lease obligations	21	**(59.4)**	(11.0)
Other financial liabilities	27	**(2.0)**	(0.5)
Trade and other payables	22	**(9.3)**	(6.1)
Retirement benefit obligations	8	**(59.8)**	(49.7)
Provisions	23	**(55.8)**	(39.8)
Non-current liabilities		**(381.7)**	(199.6)
Total liabilities		**(1,459.8)**	(974.5)
Net assets	2	**309.7**	158.3
Equity			
Share capital	24	**0.6**	0.4
Share premium		**73.7**	63.3
Capital redemption reserve		**2.7**	2.7
Retained earnings		**51.4**	102.0
Cash flow hedge reserve	24	**(2.9)**	(13.0)
Translation reserve	24	**(3.6)**	0.4
Merger reserve	24	**184.8**	–
Equity attributable to owners of the parent		**306.7**	155.8
Non-controlling interests		**3.0**	2.5
Total equity		**309.7**	158.3

The financial statements on pages 93 to 138 were approved by the Board of directors on 17 September 2014 and were signed on its behalf by:

Haydn Mursell
Director

Consolidated cash flow statement
For the year ended 30 June 2014

	Notes	2014 £m	2013 £m
Cash flows from operating activities			
Profit before tax		**14.8**	25.9†
Exceptional items	4	**42.2**	17.0
Net finance cost	5	**20.2**	9.2
Share of post-tax trading results of joint ventures	14	**(1.6)**	(0.9)
Normal cash contributions to pension fund in excess of pension charge		**1.3**	2.0†
Equity settled share-based payments charge	25	**4.0**	4.0
Negative goodwill recognised, amortisation and impairment of intangible assets		**10.8**	4.3
Depreciation charges	13	**41.5**	12.7
Profit on disposal of joint ventures	30d	**(6.1)**	(9.8)
Profit on disposal of property, plant and equipment		**(4.5)**	(1.7)
Operating cash flows before movements in working capital		**122.6**	62.7
Special contributions to pension fund		**(8.0)**	(20.1)
Increase in inventories		**(7.0)**	(4.7)
(Increase)/decrease in receivables		**(156.3)**	35.2
Increase/(decrease) in payables		**96.3**	(69.0)
(Decrease)/increase in provisions		**(31.7)**	1.6
Cash inflow from operating activities before exceptional items		**15.9**	5.7
Cash flow from exceptional items		**(35.6)**	(11.0)
Cash flows from operating activities		**(19.7)**	(5.3)
Dividends received from joint ventures	14	**0.3**	0.2
Interest received		**2.2**	2.3
Income taxes received		**11.3**	3.5
Net cash (outflow)/inflow from operating activities		**(5.9)**	0.7
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**6.0**	2.9
Proceeds from sale of joint ventures	30d	**17.3**	13.0
Purchases of property, plant and equipment		**(48.2)**	(22.1)
Purchase of intangible assets	12	**(6.2)**	(5.5)
Investment in assets held for resale		**(4.0)**	–
Acquisition of subsidiaries	30a	**(65.6)**	(31.5)
Net investment in joint ventures		**(11.7)**	(19.2)
Overdraft acquired	30b	**(16.8)**	–
Net cash used in investing activities before exceptional disposal proceeds		**(129.2)**	(62.4)
Exceptional proceeds on disposal of plant business net of disposal costs	30e	**4.2**	13.0
Net cash used in investing activities		**(125.0)**	(49.4)
Cash flows from financing activities			
Issue of shares	24	**2.2**	7.0
Purchase of own shares		**(1.1)**	(1.7)
Interest paid		**(14.2)**	(5.8)
Inflow from finance leases on property, plant and equipment	21	**40.3**	6.6
Inflow from new borrowings		**102.9**	92.5
Finance lease repayments	21	**(29.6)**	(1.5)
Repayment of borrowings		**(20.0)**	(30.3)
Dividends paid to owners of the parent		**(29.1)**	(24.5)
Dividends paid to non-controlling interests		**(0.2)**	(0.4)
Net cash generated by financing activities		**51.2**	41.9
Decrease in cash and cash equivalents		**(79.7)**	(6.8)
Opening cash and cash equivalents		**152.3**	159.1
Closing cash and cash equivalents	20	**72.6**	152.3

† Restated on adoption of the amendment to IAS 19 (see note 31).

Notes to the consolidated financial statements
For the year ended 30 June 2014

1 Significant accounting policies
Kier Group plc (the Company) is a Company domiciled in the United Kingdom (UK) and incorporated in England and Wales. The consolidated financial statements of the Company for the year ended 30 June 2014 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in joint arrangements.

The consolidated financial statements were approved by the directors on 15 September 2014.

Statement of compliance
The Group's consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 July 2013.

The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (GAAP). These are presented on pages 133 to 135.

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

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

The financial statements are presented in pounds sterling. They have been prepared on the historical cost basis except for derivative financial instruments which are stated at their fair value.

The following amendments to standards or interpretations are effective for the first time for the financial year ended 30 June 2014:

IFRS 13	Fair Value Measurement
IFRIC 20	Stripping costs in the production phase in a surface mine
IAS 19R	Employee Benefits
Amendments to IFRS 7	Financial Instruments: Disclosures (Offsetting financial assets and financial liabilities)
IAS 32	Financial Instruments: Presentation (Offsetting financial assets and financial liabilities)

The adoption of IAS 19R has resulted in a representation of the accounting for defined benefit pension schemes, but with no overall impact on the pension deficit (see note 31).

The following new standards and amendments to standards have been issued, but are only effective for the financial year ended 30 June 2015 onwards:

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 36	Impairment of Assets (Recoverable amount disclosures for non-financial assets)

The following new standards and amendments to standards have been issued, but the effective dates are currently undetermined as they have not yet been endorsed by the EU.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

The directors have considered the impact of these new standards and interpretations in future periods. The Group awaits the final publication of the new IFRS standard 'Revenue from Contracts with Customers' which is expected to be published imminently. The new standard will replace IAS 18 'Revenue' and IAS 11 'Construction Contracts'. It will become effective for accounting periods on or after 1 January 2017 at the earliest and will therefore be applied for the first time to the Group accounts in 30 June 2018; the IASB has indicated that early adoption will be permitted. The Group has begun a systematic review of all existing major contracts to ensure that the impact and effect of the new standard is fully understood and changes to the current accounting procedures are highlighted and acted upon in advance of the effective date.

Other than the impact of IFRS 15 as noted above, no significant net impact from the adoption of these new standards is expected. The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

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

Basis of consolidation
(a) Subsidiaries
The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 30 June 2014. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases.

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

If a business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurements are recognised in profit or loss.

1 Significant accounting policies continued

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

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

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

Provisional fair values allocated at a reporting date are finalised within 12 months of the acquisition date.

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

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(b) Joint arrangements

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

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

From time to time the Group undertakes contracts jointly with other parties. These fall under the category of jointly controlled operations as defined by IAS 31. In accordance with IAS 31, the Group accounts for its own share of sales, profits, assets, liabilities and cash flows measured according to the terms of the agreements covering the jointly controlled operations.

Goodwill and other intangible assets

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

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Negative goodwill is recognised in the income statement immediately. On disposal of a subsidiary or jointly controlled entity, the attributable carrying amount of goodwill is included in the determination of the profit or loss on disposal. Goodwill arising on acquisitions before 1 July 2004, being the date of transition to IFRS, has been retained at the previous UK GAAP value at 1 July 2004 subject to being tested for impairment. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

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

Contract rights	over the remaining contract life
Computer software	3-7 years

Exceptional items

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

Revenue and profit recognition

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

Revenue and profit are recognised as follows:

(a) Construction contracts

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

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

The general principles for profit recognition are as follows:

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

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

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

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

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

Where developments are sold in advance of construction being completed, revenue and profit are recognised from the point of sale and as the significant outstanding acts of construction and development are completed. If a development is sold in advance of the commencement of construction, no revenue or profit is recognised at the point of sale. Revenue and profit are recognised in line with the progress on construction, based on the percentage completion of the construction and development work. If a development is sold during construction but prior to completion, revenue and profit are recognised at the time of sale in line with the percentage completion of the construction and development works at the time of sale and thereafter in line with the percentage of completion of the construction and development works.

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

1 Significant accounting policies continued

Pre-contract costs

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

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

Property, plant and equipment and depreciation

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

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

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

Leases

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

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

Employee benefits

(a) Retirement benefit obligations

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

The Group accounts for defined benefit obligations in accordance with IAS 19 (Revised). Obligations are measured at discounted present value while plan assets are measured at fair value. The operating and financing costs of such plans are recognised separately in the income statement; current service costs are spread systematically over the lives of employees and financing costs are recognised in full in the period in which they arise. Remeasurements of the net defined pension liability, including actuarial gains and losses, are recognised immediately in other comprehensive income.

Where the calculations result in a surplus to the Group, the recognised asset is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan.

(b) Share-based payments

Share-based payments granted but not vested, are valued at the fair value of the shares at the date of grant. This affects the Sharesave and Long Term Incentive Plan (LTIP) schemes. The fair value of these schemes at the date of award is calculated using the Black-Scholes model apart from the total shareholder return element of the LTIP which is based on a stochastic model.

The cost to the Group of awards to employees under the LTIP scheme is spread on a straight-line basis over the relevant performance period. The scheme awards to senior employees a number of shares which will vest after three years if particular criteria are met. The cost of the scheme is based on the fair value of the shares at the date the options are granted.

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

Finance income and costs

Interest receivable and payable on bank balances is credited or charged to the income statement as incurred using the effective interest rate method.

Borrowing costs are capitalised where the Group constructs qualifying assets. All other borrowing costs are written off to the income statement as incurred.

Borrowing costs incurred within the Group's jointly controlled entities relating to the construction of assets in PFI and PPP projects are capitalised until the relevant assets are brought into operational use.

Notional interest payable, representing the unwinding of the discount on long-term liabilities, is charged to finance costs.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax provision is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the exchange rates in effect when they take place. Resulting foreign currency denominated assets and liabilities are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising from foreign currency transactions are reflected in the income statement.

The assets and liabilities of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. Trading profits or losses are translated at average rates prevailing during the accounting period. Differences on exchange arising from the retranslation of net investments in overseas subsidiary undertakings at the year-end rates are recognised in other comprehensive income. All other translation differences are reflected in the income statement.

Mining assets

Opencast expenditure incurred prior to the commencement of operating an opencast site is capitalised and the cost less the residual value is depreciated over the ‘coaling life’ of the site on a coal extraction basis.

The cost of restoration is recognised as a provision as soon as the restoration liability arises. The amount provided represents the present value of the anticipated costs. Costs are charged against the provision as incurred and the unwinding of the discount is included within finance costs. A tangible asset is created for an amount equivalent to the initial provision and depreciated on a coal extraction basis over the life of the asset. Where there is a subsequent change to the estimated restoration costs or discount rate, the present value of the change is recognised as a change in the restoration provision with a corresponding change in the cost of the tangible asset until the asset is fully depreciated when the remaining adjustment is taken to the income statement.

Inventories

Inventories, including land held for and in the course of development, are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, labour and production overheads which have been incurred in bringing the inventories and work in progress to their present location and condition. Cost in certain circumstances also includes notional interest as explained in the accounting policy for finance income and costs. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Construction work in progress is included within inventories in the balance sheet. It is measured at cost plus profit less losses recognised to date less progress billings. If payments received from customers exceed the income recognised, the difference is included within trade and other payables in the balance sheet.

Land inventory is recognised at the time a liability is recognised; generally after exchange of unconditional contracts.

Property inventory, which represents all development land and work in progress, is included at cost less any losses foreseen in completing and disposing of the development less any amounts received or receivable as progress payments or part disposals. Where a property is being developed, cost includes cost of acquisition and development to date, including directly attributable fees, expenses and finance charges net of rental or other income attributable to the development. Where development property is not being actively developed, net rental income and finance costs are taken to the income statement.

Assets held for sale

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets are available for sale in their present condition.

Notes to the consolidated financial statements
For the year ended 30 June 2014 continued

1 Significant accounting policies continued

Share capital
The ordinary share capital of the Company is recorded at the proceeds received, net of directly attributable incremental issue costs.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that an outflow will be required to settle the obligation and the amount can be reliably estimated.

Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

(a) Trade receivables and trade payables
Given the varied activities of the Group it is not practicable to identify a common operating cycle. The Group has therefore allocated receivables and payables due within 12 months of the balance sheet date to current with the remainder included in non-current.

Trade receivables do not carry interest and are stated at their initial fair value reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables on normal terms are not interest bearing and are stated at their nominal value. Trade payables on extended terms, particularly in respect of land purchases, are discounted and recorded at their present value.

(b) Cash and cash equivalents
Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand, including bank deposits with original maturities of three months or less, net of bank overdrafts. Bank overdrafts are included within financial liabilities in current liabilities in the balance sheet.

(c) Bank and other borrowings
Interest-bearing bank and other borrowings are recorded at the fair value of the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

(d) PFI assets
Under the terms of a PFI or similar project, where the risks and rewards of ownership remain largely with the purchaser of the associated services, the Group's interest in the asset is classified as a financial asset and included at its amortised cost within investment in joint ventures.

(e) Derivative financial instruments
Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently remeasured in future periods at their fair value. The method of recognising the resulting change in fair value depends on whether the derivative is designated as a hedging instrument and whether the hedging relationship is effective.

For cash flow hedges the effective part of the change in fair value of these derivatives is recognised directly in equity. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate derivatives is the estimated amount that the Group would receive or pay to terminate the derivatives at the balance sheet date.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

The Group enters into forward contracts in order to hedge against transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, changes in fair value of derivatives are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

Accounting estimates and judgements
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(a) Revenue and profit recognition
The estimation techniques used for revenue and profit recognition in respect of private housing sales, property development and construction contracts require forecasts to be made of the outcome of long-term contracts which require assessments and judgements to be made on the recovery of pre-contract costs, changes in the scope of work, contract programmes, maintenance and defects liabilities and changes in costs.

(b) Valuation of land and work in progress
The key judgements and estimates in determining the net realisable value of land and work in progress are:

- An estimation of costs to complete;
- An estimation of the remaining revenues; and
- An estimation of selling costs.

These assessments include a degree of uncertainty and therefore if the key judgements and estimates change unfavourably, impairments of land and work in progress may be necessary.

(c) Determination of fair values of identifiable net assets on acquisitions

On the acquisition of a business, fair values are attributed to the identifiable assets and liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is subsumed into goodwill.

(d) Defined benefit pension scheme valuations

In determining the valuation of defined benefit pension scheme assets and liabilities, a number of key assumptions have been made. The key assumptions, which are given below, are largely dependent on factors outside the control of the Group:

- Expected return on plan assets;
- Inflation rate;
- Mortality;
- Discount rate; and
- Salary and pension increases.

Details of the assumptions used are included in note 8.

(e) Provisions

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the amount and timing of liabilities judgement is applied and re-evaluated at each reporting date.

(f) Recoverable value of recognised receivables

The recoverability of trade and other receivables is regularly reviewed in the light of available economic information specific to each receivable and provisions are recognised for balances considered to be irrecoverable.

(g) Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of cash-generating units (CGUs) to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the CGU and the application of a suitable discount rate in order to calculate the net present value. Cash flow forecasts for the next three years are based on the Group's budgets and forecasts. Other key inputs in assessing each CGU are revenue growth, operating margin and discount rate. The assumptions are set out in note 12 together with an assessment of the impact of reasonably possible sensitivities.

(h) Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item is part of underlying or non-underlying items requires judgement.

(i) Assets held for sale

When it is probable that businesses will be sold within one year and they are being actively marketed they meet the criteria to be classified as held for sale.

(j) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the overall provision for income taxes. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is judged probable that future taxable profit will arise against which the temporary differences will be utilised.

2 Segmental reporting

The Group operates three divisions: Property, Construction and Services, which is the basis on which the Group manages and reports its primary segmental information. Corporate includes unrecovered overheads and the charge for defined benefit pension schemes. From 1 July 2014 the Group will operate four divisions: Property, Residential, Construction and Services.

Segment information is based on the information provided to the chief executive who is the chief operating decision maker. The segments are strategic business units with separate management, and have different core customers and offer different services. The segments are discussed in the chief executive's strategic review on pages 10 to 13 and the divisional reviews on pages 34 to 45.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies on pages 97 to 103. The Group evaluates segment information on the basis of profit or loss from operations before exceptional items, interest and income tax expense. The segment results that are reported to the chief executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

2 Segmental reporting continued

Year to 30 June 2014	Property[5] £m	Construction £m	Services £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	284.1	1,597.0	1,104.1	–	2,985.2
Less share of joint ventures	(24.4)	(6.5)	–	–	(30.9)
Group revenue	**259.7**	**1,590.5**	**1,104.1**	**–**	**2,954.3**
Profit					
Group operating profit	14.4	32.5	53.3	(19.9)	80.3
Share of post-tax results of joint ventures	0.5	1.1	–	–	1.6
Profit on disposal of joint ventures	6.1	–	–	–	6.1
Underlying operating profit	**21.0**	**33.6**	**53.3**	**(19.9)**	**88.0**
Underlying net finance (costs)/credits[2]	(13.4)	5.6	(4.5)	(2.6)	(14.9)
Underlying profit before tax	**7.6**	**39.2**	**48.8**	**(22.5)**	**73.1**
Exceptional items	(2.4)	(7.8)	(10.4)	(21.6)	(42.2)
Amortisation of intangible assets relating to contract rights	(0.1)	(0.4)	(10.3)	–	(10.8)
Non-underlying net finance costs	(0.3)	–	(5.0)	–	(5.3)
Profit before tax	**4.8**	**31.0**	**23.1**	**(44.1)**	**14.8**
Balance sheet					
Total assets excluding cash	446.7	540.0	432.0	238.4	1,657.1
Liabilities excluding borrowings	(61.3)	(638.9)	(382.0)	(142.4)	(1,224.6)
Net operating assets/(liabilities)[4]	**385.4**	**(98.9)**	**50.0**	**96.0**	**432.5**
Cash, net of borrowings	(304.2)	273.9	13.2	(105.7)	(122.8)
Net assets/(liabilities)	**81.2**	**175.0**	**63.2**	**(9.7)**	**309.7**
Other information					
Inter-segmental revenue[3]	1.5	10.3	130.0	8.4	150.2
Capital expenditure	1.0	3.2	35.2	8.8	48.2
Depreciation of property, plant and equipment	0.2	8.5	29.2	3.6	41.5
Amortisation of computer software	–	–	–	1.1	1.1

1 Revenue is stated after the exclusion of inter-segmental revenue.
2 Interest was (charged)/credited to the divisions at a notional rate of 4.5% and 4.0% respectively.
3 Inter-segmental pricing is determined on an arm's length basis.
4 Net operating assets/(liabilities) represent assets excluding cash, borrowings and interest-bearing inter-company loans.
5 Results for Property include the Residential business, created on 1 July 2014. These results will be separately disclosed in the year to 30 June 2015.

Year to 30 June 2013	Property[5] £m	Construction £m	Services £m	Corporate[†] £m	Group[†] £m
Revenue[1]					
Group and share of joint ventures	238.0	1,307.4	437.4	–	1,982.8
Less share of joint ventures	(33.6)	(6.2)	–	–	(39.8)
Group revenue	204.4	1,301.2	437.4	–	1,943.0
Profit					
Group operating profit	10.2	30.0	19.3	(14.7)	44.8
Share of post-tax results of joint ventures	0.5	0.4	–	–	0.9
Profit on disposal of joint ventures	9.8	–	–	–	9.8
Underlying operating profit	20.5	30.4	19.3	(14.7)	55.5
Underlying net finance (costs)/credits[2]	(12.9)	7.6	(0.8)	(1.8)	(7.9)
Underlying profit before tax	7.6	38.0	18.5	(16.5)	47.6
Exceptional items	–	(8.9)	(6.7)	(1.4)	(17.0)
Amortisation of intangible assets relating to contract rights	–	(0.1)	(3.3)	–	(3.4)
Non-underlying net finance costs	(1.3)	–	–	–	(1.3)
Profit before tax	6.3	29.0	8.5	(17.9)	25.9
Balance sheet					
Total assets excluding cash	425.5	370.2	131.4	53.4	980.5
Liabilities excluding borrowings	(81.0)	(568.4)	(129.1)	(103.5)	(882.0)
Net operating assets/(liabilities)[4]	344.5	(198.2)	2.3	(50.1)	98.5
Cash, net of borrowings	(266.9)	319.3	30.0	(22.6)	59.8
Net assets/(liabilities)	77.6	121.1	32.3	(72.7)	158.3
Other information					
Inter-segmental revenue[3]	0.3	10.2	35.5	13.1	59.1
Capital expenditure	1.6	6.7	8.1	10.6	27.0
Depreciation of property, plant and equipment	0.2	5.4	4.1	3.0	12.7
Amortisation of computer software	–	–	–	0.9	0.9

1 Revenue is stated after the exclusion of inter-segmental revenue.
2 Interest was (charged)/credited to the divisions at a notional rate of 4.5% and 4.0% respectively.
3 Inter-segmental pricing is determined on an arm's length basis.
4 Net operating assets/(liabilities) represent assets excluding cash, borrowings and interest-bearing inter-company loans.
5 Results for Property include the Residential business, created on 1 July 2014. These results will be separately disclosed in the year to 30 June 2015.
† Restated on adoption of the amendment to IAS 19 (see note 31).

3 Profit for the year

Profit before taxation is stated after charging:

	2014 £m	2013 £m
Auditor's remuneration:		
Fees payable for the audit of the parent company and consolidated financial statements	**0.1**	0.1
Fees payable to the Company's auditor for other services:		
Audit of the Company's subsidiaries, pursuant to legislation	**0.7**	0.6
Other services	**0.9**	1.2
Hire of plant and machinery	**55.1**	23.7
Operating lease rentals:		
Land and buildings	**4.7**	5.0
Plant and machinery	**11.6**	20.0

The 2013 auditor's remuneration for statutory audit services and non-audit services relate to amounts paid to KPMG Audit Plc. The 2014 amounts solely relate to amounts paid to KPMG LLP.

Other services mainly comprise £0.7m for advice in connection with the Group's organisational efficiency and transformation project.

4 Non-underlying items

	2014 £m	2013* £m
Costs relating to the acquisition of May Gurney	(8.1)	(1.8)
Restructuring and transformation costs following the acquisition of May Gurney	(29.6)	–
Construction Workers Compensation Scheme and related costs	(4.5)	–
Business restructuring	–	(10.1)
Provision for loss on disposal of tower crane and other discontinued businesses	–	(3.2)
Closure and discontinuation of the scaffolding and related businesses	–	(1.9)
Exceptional items before tax	(42.2)	(17.0)
Tax on exceptional items	6.4	3.7
Exceptional items after tax	(35.8)	(13.3)
Amortisation of intangible contract rights	(10.8)	(3.4)
Tax on amortisation of intangible contract rights	2.2	0.8
Exceptional items and amortisation of intangible contract rights after tax	(44.4)	(15.9)
Acquisition discount unwind	(5.3)	(1.3)
Tax on acquisition discount unwind	1.2	0.3
Exceptional items, amortisation and acquisition discount unwind after tax	(48.5)	(16.9)

* Non-underlying items include one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition. The prior year comparatives have been re-presented to reflect this presentation.

During the year the Group incurred costs of £8.1m on the acquisition of May Gurney (2013: £1.8m; following this acquisition the business incurred £29.6m of restructuring and transformation costs, primarily related to reduction in staff numbers and office rationalisation across the enlarged business.

Provision has been made for the likely £4.5m costs to satisfy the Group's share of both claims from, and administration costs of, The Construction Workers Compensation Scheme and related costs.

In 2013 the Group incurred restructuring costs in the Construction and Services divisions (£10.1m), and provided for the loss on disposal of the tower crane business along with other discontinued businesses (£3.2m) and for the closure of the scaffolding and related businesses, (£1.9m).

5 Finance income and cost

	2014			2013		
	Underlying £m	Non-underlying[1] £m	Total £m	Underlying £m	Non-underlying[1] £m	Total £m
Finance income						
Interest receivable on bank deposits	0.6	–	0.6	1.0	–	1.0
Interest receivable on loans to joint ventures	1.6	–	1.6	1.3	–	1.3
	2.2	–	2.2	2.3	–	2.3
Finance costs						
Interest payable and fees on bank overdrafts and loans	(3.6)	–	(3.6)	(2.4)	–	(2.4)
Interest payable on borrowings	(7.8)	–	(7.8)	(3.0)	–	(3.0)
Interest payable to joint ventures	(0.1)	–	(0.1)	–	–	–
Interest payable on finance leases	(2.7)	–	(2.7)	(0.4)	–	(0.4)
Discount unwinding	(1.1)	(5.3)	(6.4)	(1.5)	(1.3)	(2.8)
Net interest on net defined benefit obligation	(1.8)	–	(1.8)	(2.9)	–	(2.9)
	(17.1)	(5.3)	(22.4)	(10.2)	(1.3)	(11.5)

[1] Unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition.

6 Information relating to employees

	Note	2014 No.	2013† No.
Average number of people employed during the year including executive directors was:			
United Kingdom		**14,318**	9,763
Rest of world		**1,017**	692
		15,335	10,455
		£m	£m
Group staff costs are as follows:			
United Kingdom		**576.4**	386.5
Rest of world		**37.0**	18.4
		613.4	404.9
Comprising:			
Wages and salaries		**522.2**	339.8
Social security costs		**45.9**	31.4
Defined benefit pension scheme costs		**14.0**	16.0
Contributions to the defined contribution pension scheme		**27.3**	13.7
Share-based payment plans	25	**4.0**	4.0
		613.4	404.9

† Restated on adoption of the amendment to IAS 19 (see note 31).

7 Information relating to directors

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 67 to 85.

8 Retirement benefit obligations

The Group operates a number of pension schemes for eligible employees as described below.

Kier Group Pension scheme

This is the principal scheme and includes a defined benefit section and a defined contribution section. The assets of the scheme are held in trust separate from the assets of the Group. The trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers.

The defined benefit section of the scheme was closed to new entrants on 1 January 2002; existing members continue to accrue benefits for future service, although consultation with members to close the scheme to future accrual commenced in July 2014.

An actuarial valuation of the scheme was undertaken by the trustees' independent actuaries as at 1 April 2013 using the projected unit method. The market value of the scheme's assets at that date was £822m which represented approximately 83% of the benefits that had accrued to members at that date, after allowing for future increases in pensionable salaries. The contributions paid during the year were £16.4m (2013: £29.4m) which included contributions of £8m (2013: £20.1m) to fund the past service deficit.

The Group is currently consulting with members over the closure of the defined benefit section to future accrual (with effect from 1 November 2014).

Going forward, contributions will include an allowance for funding the past service deficit identified at the 2013 valuation date. The Group expects to make contributions for future service of £2.8m, being 21.8% of pensionable pay until 1 November 2014 assuming future accrual ends at that date, plus £16.7m for funding the past service deficit in the year to June 2015.

The Pension Protection Fund (PPF) levy is payable in addition to the above contributions.

Kier Sheffield LLP (participation in South Yorkshire Pension Fund)

The Group participated in the South Yorkshire Pension Fund through its subsidiary Kier Sheffield LLP. The participation commenced on 1 April 2003 when Kier Sheffield LLP became an admitted body. As such it was granted a fully funded past service position at that date, with assets and past service liabilities of £65.0m.

The scheme originally covered 1,146 employees who transferred from Sheffield City Council's employment to Kier Sheffield LLP at the start of the contract. New employees were offered membership of the defined contribution section of the Kier Group Pension Scheme. Kier Sheffield LLP is required to pay contributions in respect of these employees in accordance with the rates specified in their contracts of employment.

The original contract terminated on 31 March 2014 and therefore Kier Sheffield's participation in this defined benefit scheme ceased on that date. The assets and liabilities relating to Kier Sheffield LLP's liabilities have been transferred back to Sheffield City Council.

Kier Sheffield LLP's pension costs in respect of the defined benefit scheme are assessed on the advice of an independent qualified actuary using the projected unit method. The contributions paid during the nine month period to 31 March 2014 were £2.1m (2013: £1.8m).

8 Retirement benefit obligations continued

Other defined benefit schemes
The May Gurney and TransLinc defined benefit schemes were acquired with May Gurney (see note 30). Both of these defined benefit schemes have closed to future accrual and the sum of the deficit contributions to both plans payable in the period to 30 June 2014 amounted to £0.3m. The assets of the scheme are held in trust separate from the assets of the Group. The trustees are responsible for decisions, holding the assets and delegate day to day decisions to independent professional investment managers.

Other defined contribution schemes
Contributions are also made to a number of other defined contribution arrangements. The Group paid contributions of £26.7m (2013: £13.7m) during the year to these arrangements.

IAS 19 'Employee Benefits' disclosures
Kier recognises any actuarial gains or losses through the statement of comprehensive income as permitted under IAS 19.

The principal assumptions used by the independent qualified actuaries were:

Kier Group Pension Scheme

	2014 %	2013 %	2012 %
Rate of general increases in pensionable salaries	**3.3**	3.3	2.8
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.2**	3.2	2.8
Discount rate	**4.4**	4.7	4.7
Inflation rate (RPI)	**3.4**	3.5	3.0
Inflation rate (CPI)	**2.4**	2.5	2.0

The mortality assumptions are that life expectancy from age 60 is currently 27.8 years for a man and 29.6 years for a woman but is expected to increase to 29.3 years for future male and 31.0 years for future female pensioners who retire in 2034.

	Value		
	2014 £m	2013 £m	2012 £m
Land	**13.3**	12.9	13.8
Equities, property and other return-seeking assets	**644.9**	608.1	513.2
PFI assets	**7.3**	7.1	7.6
Government bonds, cash, swaps and collateral	**171.6**	155.6	187.3
Total market value of assets	**837.1**	783.7	721.9
Present value of liabilities	**(900.2)**	(832.4)	(780.9)
Deficit	**(63.1)**	(48.7)	(59.0)
Related deferred tax asset	**12.6**	11.2	14.2
Net pension liability	**(50.5)**	(37.5)	(44.8)

IAS 19 requires that the discount rate is determined by reference to high quality corporate bonds in the UK that match the estimated term of the pension obligations. This year, we have assumed that 'high quality' corporate bonds are those which at least one rating agency considers to be at least AA (or equivalent). In previous years, we had required that the majority of the rating agencies rated a bond as AA for us to consider it a high quality corporate bond. This represents a change in the basis of estimation applied in prior periods, and has had the impact of decreasing the defined benefit obligation in the Kier Group Pension Scheme by around £32m at 30 June 2014.

Kier Sheffield LLP

	2014 %	2013 %	2012 %
Rate of general increases in pensionable salaries	**4.4**	4.5	4.0
Discount rate	**4.4**	4.7	4.7
Inflation rate (RPI)	**3.4**	3.5	3.0
Inflation rate (CPI)	**2.4**	2.5	2.0

The mortality assumptions are that life expectancy from age 60 is currently 27.7 years for a man and 30.5 years for a woman but is expected to increase to 30.1 years for future male and 33.0 years for future female pensioners who retire in 2034.

	Value		
	2014 £m	2013 £m	2012 £m
Equities and property	**–**	128.4	120.7
Corporate bonds	**–**	12.1	13.0
Government bonds	**–**	42.4	27.5
Total market value of assets	**–**	182.9	161.2
Present value of liabilities	**–**	(183.9)	(160.0)
(Deficit)/surplus	**–**	(1.0)	1.2
Related deferred tax asset/(liability)	**–**	0.2	(0.3)
Net pension (liability)/asset	**–**	(0.8)	0.9

Other defined benefit schemes (May Gurney and TransLinc)

	2014 %	8 July 2013 %
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.2**	3.2
Discount rate	**4.4**	4.7
Inflation rate (RPI)	**3.4**	3.5
Inflation rate (CPI)	**2.4**	2.5

The mortality assumptions are that life expectancy from age 60 is currently 26.4 years for a man and 28.8 years for a woman but is expected to increase to 28.0 years for future male and 30.4 years for future female pensioners who retire in 2034.

	2014 £m	8 July 2013 £m
Equities, property and other return-seeking assets	**38.0**	44.2
Government bonds and cash	**36.6**	26.9
Total market value of assets	**74.6**	71.1
Present value of liabilities	**(71.3)**	(67.4)
Surplus	**3.3**	3.7
Related deferred tax liability	**(0.7)**	(0.7)
Net pension asset	**2.6**	3.0

8 Retirement benefit obligations continued

Amounts recognised in the financial statements in respect of these defined benefit schemes are as follows:

	2014				2013†		
	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Other £m	Total £m	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Total £m
(Charged)/credited to operating profit in the income statement							
Current service cost	(9.3)	(2.5)	–	(11.8)	(9.8)	(2.8)	(12.6)
Administration expenses	(0.9)	–	–	(0.9)	(0.4)	–	(0.4)
Past service cost (including curtailments)	–	(0.9)	–	(0.9)	–	(0.1)	(0.1)
Settlement credit	–	1.4	–	1.4	–	–	–
Net interest on net defined benefit obligation	(1.9)	–	0.1	(1.8)	(3.0)	0.1	(2.9)
Pension (expense)/credit recognised in profit and loss	(12.1)	(2.0)	0.1	(14.0)	(13.2)	(2.8)	(16.0)
Remeasurement in other comprehensive income							
Actual return in excess of that recognised in net interest	36.4	5.1	2.5	44.0	31.5	14.2	45.7
Actuarial losses due to changes in financial assumptions	(44.4)	(7.5)	(3.4)	(55.3)	(38.1)	(15.4)	(53.5)
Actuarial losses due to changes in demographic assumptions	(7.7)	(8.4)	–	(16.1)	–	–	–
Actuarial gains/(losses) due to liability experience	(3.0)	11.7	–	8.7	0.7	–	0.7
Total amount recognised in full	(18.7)	0.9	(0.9)	(18.7)	(5.9)	(1.2)	(7.1)
Changes in the fair value of scheme assets							
Fair value at 1 July	783.7	182.9	–	966.6	721.9	161.2	883.1
Acquired in the year	–	–	71.1	71.1	–	–	–
Interest income on scheme assets	36.4	6.5	3.3	46.2	33.0	7.6	40.6
Remeasurement gains on scheme assets	36.4	5.1	2.5	44.0	31.5	14.2	45.7
Contributions by the employer	16.4	2.1	0.3	18.8	29.4	1.8	31.2
Contributions by scheme participants	0.1	0.8	–	0.9	0.1	1.1	1.2
Net benefits paid out	(35.0)	(4.3)	(2.6)	(41.9)	(31.8)	(3.0)	(34.8)
Administration expenses	(0.9)	–	–	(0.9)	(0.4)	–	(0.4)
Transfer out	–	(193.1)	–	(193.1)	–	–	–
Fair value at 30 June	837.1	–	74.6	911.7	783.7	182.9	966.6
Changes in the present value of the defined benefit obligation							
Fair value at 1 July	(832.4)	(183.9)	–	(1,016.3)	(780.9)	(160.0)	(940.9)
Acquired in the year	–	–	(67.4)	(67.4)	–	–	–
Current service cost	(9.3)	(2.5)	–	(11.8)	(9.8)	(2.8)	(12.6)
Interest expense on scheme liabilities	(38.3)	(6.5)	(3.1)	(47.9)	(36.0)	(7.5)	(43.5)
Past service cost	–	(0.9)	–	(0.9)	–	(0.1)	(0.1)
Settlement	–	1.4	–	1.4	–	–	–
Actuarial losses due to changes in financial assumptions	(44.4)	(7.5)	(3.4)	(55.3)	(38.1)	(15.4)	(53.5)
Actuarial losses due to changes in demographic assumptions	(7.7)	(8.4)	–	(16.1)	–	–	–
Actuarial (losses)/gains due to liability experience	(3.0)	11.7	–	8.7	0.7	–	0.7
Contributions by scheme participants	(0.1)	(0.8)	–	(0.9)	(0.1)	(1.1)	(1.2)
Net benefits paid out	35.0	4.3	2.6	41.9	31.8	3.0	34.8
Transfer out	–	193.1	–	193.1	–	–	–
Fair value at 30 June	(900.2)	–	(71.3)	(971.5)	(832.4)	(183.9)	(1,016.3)
Amounts included in the balance sheet							
Fair value of scheme assets	837.1	–	74.6	911.7	783.7	182.9	966.6
Net present value of the defined benefit obligation	(900.2)	–	(71.3)	(971.5)	(832.4)	(183.9)	(1,016.3)
Net (deficit)/surplus	(63.1)	–	3.3	(59.8)	(48.7)	(1.0)	(49.7)
Related deferred tax asset/(liability)	12.6	–	(0.7)	11.9	11.2	0.2	11.4
Net pension (liability)/asset	(50.5)	–	2.6	(47.9)	(37.5)	(0.8)	(38.3)

† Restated on adoption of the amendment to IAS 19 (see note 31).

History of experience gains and losses for defined benefit schemes in aggregate:

	2014 £m	2013† £m	2012 £m	2011 £m	2010 £m
Fair value of scheme assets	**911.7**	966.6	883.1	839.7	746.3
Net present value of the defined benefit obligation	**(971.5)**	(1,016.3)	(940.9)	(869.3)	(833.5)
Net deficit	**(59.8)**	(49.7)	(57.8)	(29.6)	(87.2)
Related deferred tax asset	**11.9**	11.4	13.9	7.7	24.4
Net pension liability	**(47.9)**	(38.3)	(43.9)	(21.9)	(62.8)
Difference between expected and actual return on scheme assets	**44.0**	45.7	(6.1)	47.0	82.8
Experience gains/(losses) on scheme liabilities	**8.7**	0.7	(42.9)	(34.4)	(93.0)

† Restated on adoption of the amendment to IAS 19 (see note 31).

The Group has made the following special contributions to the Kier Group Pension Scheme:

- In July 2012, £5.0m which was settled in cash; and
- In June 2013, £7.1m which was settled through the transfer of the Group's interest in the Sydenham development site into Kier Sydenham LP, an equal partnership between the Group and the scheme.

These amounts have been included as contributions received by the scheme. No special contributions were made in the year to 30 June 2014.

Pension sensitivity

The following table shows the change in surplus/(deficit) arising from a change in the significant actuarial assumptions used to determine the retirement benefits obligations for the Kier Group Pension Scheme:

	2014		2013	
	+0.25%/+1 year £m	**-0.25%/-1 year £m**	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+0.25%, -0.25%)	**41.1**	**(41.4)**	36.5	(36.5)
Inflation rate (+0.25%, -0.25%)	**(20.3)**	**20.3**	(22.0)	22.0
Increase in life expectancy (+/- 1 year)	**(28.7)**	**28.7**	(26.5)	26.5

The sensitivity analysis above has been determined based on reasonably possible changes of the respective assumptions occuring at the end of the reporting period and may not be representative of the actual change. It is based on a change in a key assumption while holding all other assumptions constant. When calculating the sensitivity to the assumption, the same method used to calculate the liability recognised in the balance sheet has been applied. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared with the previous period.

9 Taxation

(a) Recognised in the income statement

	2014			2013		
	Underlying items* £m	Non-underlying items including amortisation of intangible contract rights* £m	Total £m	Underlying items*† £m	Non-underlying items including amortisation of intangible contract rights* £m	Total† £m
Current tax expense						
UK corporation tax	8.2	(8.2)	–	3.8	(3.8)	–
Adjustments for prior years	(0.2)	–	(0.2)	(2.1)	–	(2.1)
Total current tax	8.0	(8.2)	(0.2)	1.7	(3.8)	(2.1)
Deferred tax expense						
Origination and reversal of temporary differences	9.3	(1.6)	7.7	5.2	(1.0)	4.2
Rate change effect on deferred tax	(5.4)	–	(5.4)	(1.4)	–	(1.4)
Adjustments in respect of prior years	2.0	–	2.0	(0.4)	–	(0.4)
Total deferred tax	5.9	(1.6)	4.3	3.4	(1.0)	2.4
Total tax charge/(credit) in the income statement	13.9	(9.8)	4.1	5.1	(4.8)	0.3
Reconciliation of effective tax rate						
Profit before tax	73.1	(58.3)	14.8	47.6	(21.7)	25.9
Adjust: tax on joint ventures included above	0.1	–	0.1	(0.2)	–	(0.2)
Adjusted profit before tax	73.2	(58.3)	14.9	47.4	(21.7)	25.7
Income tax at UK corporation tax rate of 22.5% (2013: 23.75%)	16.5	(13.1)	3.4	11.2	(5.1)	6.1
Non-deductible expenses	2.5	3.3	5.8	0.1	0.3	0.4
Effect of change in UK corporation tax rate	(5.4)	–	(5.4)	(1.4)	–	(1.4)
Capital gains not taxed	(1.4)	–	(1.4)	(1.2)	–	(1.2)
Tax relief on expenses not recognised in the income statement	(0.2)	–	(0.2)	(0.7)	–	(0.7)
Effect of tax rates in foreign jurisdictions	0.2	–	0.2	(0.2)	–	(0.2)
Deferred tax asset on tax losses in joint ventures	–	–	–	(0.4)	–	(0.4)
Adjustments in respect of prior years	1.8	–	1.8	(2.5)	–	(2.5)
Total tax (including joint ventures)	14.0	(9.8)	4.2	4.9	(4.8)	0.1
Tax on joint ventures	(0.1)	–	(0.1)	0.2	–	0.2
Group tax charge/(credit)	13.9	(9.8)	4.1	5.1	(4.8)	0.3

* Non-underlying items include one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition. The prior year comparatives have been re-presented to reflect this presentation (see note 4).

† Restated on adoption of the amendment to IAS 19 (see note 31).

Kier Group and its subsidiaries are based predominantly in the UK and are subject to UK corporation tax. Where Kier operates overseas, this will generally be either through UK resident companies or branches of UK companies, and therefore these companies will pay UK corporation tax subject to the offset of local overseas tax. The Group does not have an aggressive tax policy and has not entered into any tax avoidance schemes which were, or should have been, notified to HMRC under the Disclosure of Tax Avoidance Schemes (DOTAS) rules during the year or previous year.

The tax charge before exceptional items and amortisation of contract rights of £13.9m (2013: £5.1m) shown in the table above equates to an effective tax rate of 19% (2013: 11%) on adjusted profit before tax of £73.2m (2013: £47.4m). This effective rate is lower than the standard rate of corporation tax of 22.5% (2013: 23.75%) due to a number of items shown in the table above. The increase in non-deductible expenses relates mainly to acquisition costs on May Gurney and permanent differences on provisions.

The effect of the change in the UK corporation tax rate arises principally as a result of the impact of the rate change on the deferred tax asset related to the retirement benefit obligations. In accordance with accounting standards the effect of the change in the tax rate on the deferred tax balance is recognised in the same primary statement that the original deferred balance was recognised. The original deferred tax balance relating to the retirement benefit obligation is made up of two larger amounts that were previously recognised in part through

the income statement and in part through the statement of comprehensive income. This has resulted in a credit in the income statement and a charge in the statement of comprehensive income for the years ended 30 June 2013 and 30 June 2014.

In accordance with UK tax legislation, capital gains arising on disposal of certain investments, including some of the joint ventures disposed of during the year, are not subject to tax.

Tax relief on expenses not recognised in the income statement includes the impact of the tax deduction received in respect of the cost of shares exercised under the Group's employee Save As You Earn Scheme and the Long Term Incentive Plan.

The adjustment in respect of prior years results from differences between the estimates of taxation included in the previous year's financial statements and the actual tax liabilities calculated in the tax returns submitted to and agreed by HMRC.

(b) Recognised in the cash flow statement

The cash flow statement shows a repayment of £11.3m during the year (2013: £3.5m). £9.4m relates to May Gurney which primarily is a result of losses on onerous contracts.

(c) Recognised in the statement of comprehensive income

	2014 £m	2013† £m
Deferred tax expense (including effect of change in tax rate)		
Share of fair value movements on joint venture cash flow hedging instruments	**3.6**	1.7
Fair value movements on cash flow hedging instruments	**(0.3)**	–
Actuarial losses on defined benefit pension schemes	**4.9**	1.2
Provisions	**1.9**	–
Total tax charge in the statement of comprehensive income	**10.1**	2.9

† Restated on adoption of the amendment to IAS 19 (see note 31).

(d) Factors that may affect future tax charges

The Chancellor has so far cut the main rate of corporation tax from 24% to 21% since 2012, and announced it will reduce further by an additional 1% in April 2015, so it will reach 20%.

The corporation tax reduction from 23% to 21%, that became effective from 1 April 2014, and a further reduction to 20% effective from 1 April 2015, were both substantively enacted on 2 July 2013.

The reduction to 20% has had the effect of reducing the net deferred tax asset by £1.1m, with £5.4m being credited to the income statement and £6.5m being charged directly to the statement of comprehensive income.

This will reduce the Group's future tax charge accordingly.

The deferred tax balance as at the year end has been recognised at 20%.

(e) Tax losses

At the balance sheet date the Group has unused income tax losses of £14.8m (2013: £10.3m) available for offset against future profits. A deferred tax asset has been recognised in respect of £14.7m (2013: £10.2m) of these losses. No deferred tax asset has been recognised in respect of the remaining losses, due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

10 Dividends

Amounts recognised as distributions to owners of the parent in the year:

	2014 £m	2013 £m
Final dividend for the year ended 30 June 2013 of 46.5 pence (2012: 44.5 pence)	**25.0**	17.3
Interim dividend for the year ended 30 June 2014 of 22.5 pence (2013: 21.5 pence)	**12.3**	8.5
	37.3	25.8

The proposed final dividend of 49.5 pence (2013: 46.5 pence), bringing the total dividend for the year to 72.0 pence (2013: 68.0 pence), had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The proposed dividend totalling c£27.1m will be paid on 28 November 2014 to shareholders on the register at the close of business on 26 September 2014. A scrip dividend alternative will be offered.

11 Earnings per share

A reconciliation of profit and earnings per share, as reported in the income statement, to adjusted profit and earnings per share is set out below. The adjustments are made to illustrate the impact of exceptional items, the amortisation of intangible assets relating to contract rights and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition.

	2014		2013†	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Earnings after tax and non-controlling interests, being net profits attributable to owners of the parent	**10.0**	**10.0**	24.6	24.6
Add exceptional items	**42.2**	**42.2**	17.0	17.0
Less tax thereon	**(6.4)**	**(6.4)**	(3.7)	(3.7)
Earnings excluding exceptional items	**45.8**	**45.8**	37.9	37.9
Add amortisation of intangible assets relating to contract rights	**10.8**	**10.8**	3.4	3.4
Less tax thereon	**(2.2)**	**(2.2)**	(0.8)	(0.8)
Earnings excluding exceptional items and amortisation of intangible contract rights	**54.4**	**54.4**	40.5	40.5
Add acquisition discount unwind*	**5.3**	**5.3**	1.3	1.3
Less tax thereon	**(1.2)**	**(1.2)**	(0.3)	(0.3)
Adjusted earnings	**58.5**	**58.5**	41.5	41.5
	million	**million**	million	million
Weighted average number of shares in issue	**54.3**	**54.3**	39.3	39.3
Weighted average impact of LTIP and Sharesave Scheme	**–**	**0.4**	–	0.4
Weighted average number of shares used for earnings per share	**54.3**	**54.7**	39.3	39.7
	pence	**pence**	pence	pence
Earnings per share	**18.4**	**18.3**	62.6	62.0
Adjusted earnings per share (excluding exceptional items, amortisation of intangible contract rights and acquisition discount unwind)	**107.7**	**106.9**	105.6	104.5

† Restated on adoption of the amendment to IAS 19 (see note 31).
* Unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition.

On 8 July 2013 14.7 million shares were issued in connection with the acquisition of May Gurney (see note 24 for further details).

12 Intangible assets

	Goodwill £m	Intangible contract rights £m	Computer software £m	Total £m
Cost				
At 30 June 2012	13.4	33.4	4.5	**51.3**
Additions	–	5.5	–	**5.5**
At 30 June 2013	13.4	38.9	4.5	**56.8**
Additions	1.2	0.5	4.5	**6.2**
Acquired	194.7	106.7	–	**301.4**
Disposals	(0.7)	(1.6)	–	**(2.3)**
At 30 June 2014	**208.6**	**144.5**	**9.0**	**362.1**
Amortisation				
At 30 June 2012	–	(22.2)	(0.3)	**(22.5)**
Charge for the year	–	(3.4)	(0.9)	**(4.3)**
At 30 June 2013	–	(25.6)	(1.2)	**(26.8)**
Charge for year	–	(10.8)	(1.1)	**(11.9)**
Disposals	–	0.4	–	**0.4**
At 30 June 2014	**–**	**(36.0)**	**(2.3)**	**(38.3)**
Net book value				
At 30 June 2014	**208.6**	**108.5**	**6.7**	**323.8**
At 30 June 2013	13.4	13.3	3.3	30.0

Goodwill relates to the acquisition of May Gurney (£194.7m), Kier Partnership Homes Limited (£5.2m), Pure Recycling Limited (£4.8m), Beco Limited (£2.6m), Kier Developments Limited (£0.1m), Kier Sydenham Limited Partnership (£0.5m) and Lingfield (Catterick) Ltd (£0.7m). These balances have been subject to an annual impairment review based upon the projected profits and cash flows of each business.

The cost of contract rights primarily relates to:

- The acquisition of the businesses and assets of the construction and business services operations of Sheffield City Council (£21.3m), Harlow Council (£0.8m), Stoke-on-Trent City Council (£1.9m) and North Tyneside Council (£6.5m). These contracts are in partnership with the respective councils who have retained a participatory ownership interest and the rights for a minority share in the profits. These profit shares are reflected in the income statement as minority interests. The amounts for the year to 30 June 2014 are: Sheffield City Council £0.2m (2013: £nil), Harlow Council £0.6m (2013: £0.5m), Stoke-on-Trent City Council credit £0.2m (2013: charge £0.3m) and North Tyneside Council £0.1m (2013: £0.2m);
- The acquisition of Pure Recycling Limited (£2.0m) and Stewart Milne (£1.0m);
- The acquisition of a commercial refuse collections business from Wealdon District Council (£3.6m); and
- The acquisition of May Gurney (£106.7m).

Contract rights on May Gurney are amortised on a straight-line basis over the expected total contract duration. All other contract rights are amortised on a straight-line basis over the remaining contract life.

12 Intangible assets continued
Carrying amounts of goodwill and intangible contract rights by CGU

	Goodwill £m	Intangible contract rights £m	2014 Total £m	Goodwill £m	Intangible contract rights £m	2013 Total £m
Construction	**6.9**	**4.3**	**11.2**	–	0.9	0.9
Property	**6.4**	**0.6**	**7.0**	6.0	1.6	7.6
Services	**195.3**	**103.6**	**298.9**	7.4	10.8	18.2
	208.6	**108.5**	**317.1**	13.4	13.3	26.7

For impairment testing purpose the goodwill has been allocated to the above three trading segments. The recoverable amount of the goodwill and intangibles has been determined based on value in use calculations. The calculations use cash flow projections based on the Group's forecasts, approved by management, covering a three-year period.

The resulting cash flows are discounted to present value, with the discount rate used in the value in use calculations based on the Group's weighted average cost of capital, adjusted as necessary to reflect the risk associated with the assets being tested.

The key assumptions in the value in use calculations are the forecast revenues and gross margins during the forecast period and the discount rates applied to future cash flows. Cash flows for periods beyond those forecast have a terminal growth rate assumption applied.

Significant headroom exists in all segments and management considers that any reasonably possible change in the key assumptions would not lead to an impairment being recognised.

Services segment
A revenue growth rate of 2% and a fixed operating margin of 5% have been applied to the Services segment cash flows into perpetuity. These assumptions are in line with current trading and current forecasts of UK GDP growth rate. The pre-tax discount rate used is 9.1%.

Based on the value in use calculation, these assumptions derived a recoverable amount for the Services segment that is £531m above the carrying value of segmental assets.

The Services CGU impairment review is sensitive to changes in the key assumptions; discount rate, revenue growth rate and the operating margin, although management do not consider that any reasonable possible change in any single assumption would give rise to an impairment of the carrying value of goodwill and intangibles. The assumptions would have to change as follows for any single assumption change to bring headroom down to £nil:

Discount rate – increase from 9.1% to 18.1%

Growth rate – reduce from positive 2% to negative 7.7%

Underlying operating margin – reduce from 5% to 1.6%

13 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Mining £m	Total £m
Cost				
At 30 June 2012	51.5	87.0	44.4	**182.9**
Additions	8.8	12.7	5.5	**27.0**
Disposals	(0.1)	(6.3)	–	**(6.4)**
Transferred to assets held for sale	–	(12.5)	–	**(12.5)**
Currency realignment	–	0.2	–	**0.2**
At 30 June 2013	60.2	81.1	49.9	**191.2**
Acquired	7.3	158.8	–	**166.1**
Additions	6.7	39.5	2.0	**48.2**
Disposals	(2.4)	(42.6)	–	**(45.0)**
Currency realignment	–	(1.2)	–	**(1.2)**
At 30 June 2014	**71.8**	**235.6**	**51.9**	**359.3**
Accumulated depreciation				
At 30 June 2012	(4.6)	(52.0)	(23.5)	**(80.1)**
Charge for the year	(1.5)	(8.1)	(3.1)	**(12.7)**
Disposals	0.1	5.1	–	**5.2**
Transferred to assets held for sale	–	5.7	–	**5.7**
Currency realignment	–	(0.1)	–	**(0.1)**
At 30 June 2013	(6.0)	(49.4)	(26.6)	**(82.0)**
Acquired	(3.2)	(75.8)	–	**(79.0)**
Charge for the year	(2.2)	(32.3)	(7.0)	**(41.5)**
Disposals	1.1	35.6	–	**36.7**
Impairment	(2.0)	–	–	**(2.0)**
Currency realignment	–	0.9	–	**0.9**
At 30 June 2014	**(12.3)**	**(121.0)**	**(33.6)**	**(166.9)**
Net book value				
At 30 June 2014	**59.5**	**114.6**	**18.3**	**192.4**
At 30 June 2013	54.2	31.7	23.3	109.2

The net book value of plant and equipment includes an amount of £81.2m (2013: £13.7m) in respect of assets held under finance leases (see note 21).

14 Investment in joint ventures

(a) Movements in year

	2014 £m	2013 £m
Investment in joint ventures		
At 1 July	**29.7**	7.5
Additions	**11.7**	21.7
Loan repayments	**0.4**	–
Disposals	**(13.7)**	(3.2)
Share of:		
Operating profit	**1.9**	0.7
Finance costs	**(0.2)**	–
Taxation	**(0.1)**	0.2
Post-tax results of joint ventures	**1.6**	0.9
Net income recognised directly in equity	**15.1**	4.7
Deferred tax credit on items recognised directly in equity	**(3.6)**	(1.7)
Dividends received	**(0.3)**	(0.2)
At 30 June	**40.9**	29.7

(b) Analysis of investment

	2014 £m	2013 £m
Investment in joint ventures		
Property, plant and equipment	**33.9**	28.3
Deferred tax assets	**0.7**	4.3
Other non-current assets	**38.0**	116.4
Current assets	**29.9**	35.4
Gross assets	**102.5**	184.4
Trade and other payables – current	**(7.5)**	(19.2)
Borrowings – current	**(3.4)**	–
Borrowings – non-current	**(56.6)**	(130.9)
Financial instruments	**(1.8)**	(15.8)
Deferred tax liabilities	**–**	(0.4)
Net external assets	**33.2**	18.1
Loans provided to joint ventures	**7.7**	11.6
Total investment in joint ventures	**40.9**	29.7

The Group has provided guarantees to support borrowing facilities of joint ventures as follows:

	Borrowing facility £m	Guarantee £m	Drawn at June 2014 £m	Borrowing facility £m	Guarantee £m	Drawn at June 2013 £m
Solum Regeneration (Epsom) LP	**15.0**	**7.5**	**5.0**	19.0	9.5	10.2
Kier Sydenham LP	**36.0**	**36.0**	**31.5**	36.0	36.0	32.5
Biogen (UK) Limited	**22.0**	**22.0**	**9.0**	12.0	12.0	–
	73.0	**65.5**	**45.5**	67.0	57.5	42.7

Other than as disclosed above the liabilities of the joint ventures are without recourse to the Group. Details of the Group's interests in joint ventures are given on page 112.

15 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting year.

	Intangible assets £m	Property, plant and equipment £m	Short-term temporary differences £m	Retirement benefit obligations* £m	Tax losses £m	Total* £m
At 30 June 2012	(0.7)	0.3	12.2	13.9	2.2	**27.9**
Credit/(charge) to income	0.1	2.5	(3.9)	(1.3)	0.2	**(2.4)**
Credit direct to comprehensive income	–	–	–	(1.2)	–	**(1.2)**
Share-based payments charged to equity	–	–	(0.8)	–	–	**(0.8)**
At 30 June 2013	(0.6)	2.8	7.5	11.4	2.4	**23.5**
Acquired	(21.3)	1.9	2.9	(0.8)	5.9	**(11.4)**
Credit/(charge) to income	1.6	–	(6.7)	6.2	(5.4)	**(4.3)**
Credit direct to comprehensive income	–	–	(1.6)	(4.9)	–	**(6.5)**
Share-based payments charged to equity	–	–	0.5	–	–	**0.5**
At 30 June 2014	**(20.3)**	**4.7**	**2.6**	**11.9**	**2.9**	**1.8**

* Restated on adoption of the amendment to IAS 19 (see note 31).

Deferred tax assets and liabilities are attributed to temporary differences relating to the following:

	Assets		Liabilities		Total	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Intangible assets	**–**	–	**(20.3)**	(0.6)	**(20.3)**	(0.6)
Property, plant and equipment	**6.7**	4.9	**(2.0)**	(2.1)	**4.7**	2.8
Inventories	**3.3**	6.1	**–**	–	**3.3**	6.1
Payables	**8.7**	12.3	**(11.3)**	(11.8)	**(2.6)**	0.5
Retirement benefit obligations	**11.9**	11.5	**–**	–	**11.9**	11.5
Share-based payments	**1.9**	0.8	**–**	–	**1.9**	0.8
Tax losses	**2.9**	2.4	**–**	–	**2.9**	2.4
Total	**35.4**	38.0	**(33.6)**	(14.5)	**1.8**	23.5
Set-off tax	**(33.6)**	(14.5)	**33.6**	14.5	**–**	–
Net tax assets	**1.8**	23.5	**–**	–	**1.8**	23.5

16 Inventories

	2014 £m	2013 £m
Raw materials and consumables	**23.9**	4.1
Construction contracts in progress (note 17)	**92.4**	63.3
Land and work in progress held for development	**331.4**	322.2
Other work in progress	**22.7**	9.8
	470.4	399.4

17 Construction contracts

Contracts in progress at the balance sheet date comprise contract costs incurred plus recognised profits less losses of £6,875.8m (2013: £7,576.3m), less progress billings received and receivable of £7,120.2m (2013: £7,845.3m).

The net balance is analysed into assets and liabilities as follows:

	2014 £m	2013 £m
Inventories (note 16)	**92.4**	63.3
Trade and other payables (note 22)	**(336.8)**	(332.3)
	(244.4)	(269.0)

18 Trade and other receivables

	2014 £m	2013 £m
Current:		
Trade receivables	**358.4**	233.1
Construction contract retentions	**86.3**	38.8
Amounts receivable from joint ventures	**4.2**	0.9
Other receivables	**67.1**	30.6
Prepayments and accrued income	**59.1**	42.2
Other taxation and social security	**11.3**	–
	586.4	345.6
Non-current:		
Construction contract retentions	**12.0**	16.1
Other receivables	**11.5**	13.5
	23.5	29.6

19 Assets held for sale

	2014 £m	2013 £m
Assets held for sale	**10.4**	4.2

This represents the assets of Justice Support Services (Norfolk and Suffolk) Holdings Limited, purchased by the Property division on 31 March 2014 and held for resale (2013: relates to the plant business' tower crane assets, sold by the Services division on 5 August 2013). Further details of these acquisitions and disposals are provided in note 30.

20 Cash, cash equivalents and borrowings

	2014 £m	2013 £m
Cash and cash equivalents – bank balances and cash in hand	**112.4**	152.3
Borrowings due within 1 year	**(39.8)**	–
Borrowings due after 1 year	**(195.4)**	(92.5)
Net (borrowings)/funds	**(122.8)**	59.8

Cash and cash equivalents include £31.9m (2013: £30.4m) being the Group's share of cash and cash equivalents held by joint arrangements, £80.4m (2013: £48.3m) of cash that cannot be offset against other Group bank balances and £0.1m of restricted cash (2013: £3m).

Information on borrowings is detailed in note 27.

21 Finance lease obligations

	2014			2013		
	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
At 1 July	14.8	(1.1)	13.7	9.6	(1.0)	8.6
New obligations	43.1	(2.8)	40.3	7.1	(0.5)	6.6
Acquired obligations	66.8	(4.2)	62.6	–	–	–
Repayments	(32.3)	2.7	(29.6)	(1.9)	0.4	(1.5)
At 30 June	92.4	(5.4)	87.0	14.8	(1.1)	13.7

Finance lease liabilities are payable as follows:

	2014			2013		
	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
Less than one year	29.5	(1.9)	27.6	3.1	(0.4)	2.7
Between two and five years	61.7	(3.5)	58.2	10.9	(0.6)	10.3
Over five years	1.2	–	1.2	0.8	(0.1)	0.7
At 30 June	92.4	(5.4)	87.0	14.8	(1.1)	13.7

22 Trade and other payables

	2014 £m	2013 £m
Current:		
Payments received on account	13.0	7.6
Trade payables	338.8	185.9
Sub-contract retentions	49.5	55.2
Construction contract balances (note 17)	336.8	332.3
Deferred consideration on acquisitions	1.0	27.7
Other taxation and social security	37.2	27.8
Other payables	34.7	22.0
Accruals and deferred income	170.4	96.0
Due to external joint ventures	1.3	–
	982.7	754.5
Non-current:		
Trade payables	0.9	0.8
Sub-contract retentions	6.3	4.3
Accruals and deferred income	2.1	1.0
	9.3	6.1

23 Provisions

	2014				2013			
	Insurance claims £m	Restoration of mining sites £m	Other provisions £m	Total £m	Insurance claims £m	Restoration of mining sites £m	Other provisions £m	Total £m
At 1 July	**27.2**	**16.8**	**13.4**	**57.4**	19.6	13.7	16.3	49.6
Additions	**8.4**	**–**	**0.8**	**9.2**	13.1	4.9	6.9	24.9
Arising on acquisition	**–**	**–**	**56.5**	**56.5**	–	–	–	–
Utilised	**(10.2)**	**–**	**(28.2)**	**(38.4)**	(5.5)	(3.1)	(9.8)	(18.4)
Unwinding of discount	**–**	**1.1**	**4.9**	**6.0**	–	1.3	–	1.3
Transfers	**(8.0)**	**(0.1)**	**1.1**	**(7.0)**	–	–	–	–
At 30 June	**17.4**	**17.8**	**48.5**	**83.7**	27.2	16.8	13.4	57.4

Insurance provisions are in respect of legal and other disputes in various Group companies. Mining provisions represent the cost of restoration of opencast mining activities, see note 1 – mining assets. Other provisions primarily represent contractual obligations on cessation of certain contracts and fair value provisions of £33.3m arising on the acquisition of May Gurney (see note 30b).

It is anticipated that the amounts provided will be utilised as follows:

	2014 £m	2013 £m
Due within one year	**27.9**	17.6
Due after one year	**55.8**	39.8
	83.7	57.4

Due to the nature of the provision for insurance claims, the timing of any potential future outflows in respect of these liabilities is uncertain.

Future outflows in respect of the restoration of mining sites are expected to occur over the next three to eight years and future outflows in respect of other provisions are expected to occur over the next 12 years.

24 Share capital and reserves

Share capital

The share capital of the Company comprises:

	2014		2013	
	Number	£m	Number	£m
Issued and fully paid ordinary shares of 1p each	**55,264,354**	**0.6**	39,848,072	0.4

On 8 July 2013 14,714,445 shares were issued in connection with the acquisition of May Gurney at a premium of £183,636,274 which was credited to the merger reserve. See note 30b for further details. During the year 491,764 shares were issued as a scrip dividend alternative at a premium of £8,206,868 and 210,073 shares were issued under the Sharesave Scheme at a premium of £2,168,532.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Cash flow hedge reserve

This reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments related to hedged transactions that have not yet occurred, together with any related deferred tax.

Translation reserve

This reserve comprises the cumulative difference on exchange arising from the retranslation of net investments in overseas subsidiary undertakings. In accordance with the transitional provisions of IFRS1, this reserve was set to nil at 1 July 2004.

Merger reserve

The merger reserve arose primarily on the shares issued at a premium to acquire May Gurney on 8 July 2013.

25 Share-based payments

Options and awards over the Company's ordinary shares at 30 June 2014 were as follows:

				Formerly May Gurney					
	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	LTIP 2012 award	LTIP 2013 award	LTIP 2014 award	
Date of grant	28 Apr 2011	27 Apr 2012	03 May 2013	6 Aug 2011	30 July 2012	17 Nov 2011	13 Sept 2012	21 Oct 2013	Total
Awards outstanding at 30 June 2014									
– directors	–	–	–	–	–	78,872	95,815	77,091	251,778
– employees	76,645	484,398	338,578	70,928	127,850	424,437	490,521	478,820	2,492,177
	76,645	**484,398**	**338,578**	**70,928**	**127,850**	**503,309**	**586,336**	**555,911**	**2,743,955**
Exercise price (pence)	1,150	1,050	1,050	880	743	Nil	Nil	Nil	

Sharesave Scheme

No options were granted in the year. Options under the Sharesave Scheme are all equity settled. The weighted average market price of Kier Group plc shares at the date of exercise of options was 1,473 pence.

Long Term Incentive Plan (LTIP)

Awards made under the scheme are normally able to vest following the third anniversary of the date of the grant. Vesting may be in full or in part (with the balance of the award lapsing) and is subject to the Group achieving specific performance targets. Awards under the LTIP are all equity settled.

The awards which are taken as shares are intended to be satisfied from the following shares held by the Kier Group 1999 Employee Benefit Trust and May Gurney Group Trustees Ltd ESOP Trust rather than from the issue of new shares. These shares are accounted for as a deduction from retained earnings.

	Number of shares	**2014 £m**	Number of shares	2013 £m
At 1 July	**455,686**	**6.1**	612,489	10.1
Purchased during the year	**–**	**–**	140,546	2.0
May Gurney at date of acquisition	**519,881**	**6.0**	–	–
Issued in satisfaction of awards and other schemes	**(238,775)**	**(2.8)**	(297,349)	(6.0)
At 30 June	**736,792**	**9.3**	455,686	6.1

The market value of these shares at 30 June 2014 was £13.0m (2013: £5.2m). The dividends on these shares have been waived.

A description of these schemes and the terms and conditions of each scheme are included in the directors' remuneration report on pages 67 to 85.

Value of share schemes

The fair value per option granted has been calculated using the following assumptions. These calculations are based on the Black-Scholes model for all options apart from the TSR element of the LTIP which is based on a stochastic model.

Sharesave Schemes

				Formerly May Gurney	
Date of grant	28 April 2011	27 April 2012	3 May 2013	6 August 2011	30 July 2012
Share price at grant (pence)	1,330.0	1,172.0	1,187.0	1,268.0	1,268.0
Exercise price (pence)	1,150.0	1,050.0	1,050.0	880.0	743.0
Option life (years)	3.0	3.0	3.0	1.36	2.36
Expected volatility	38.5%	32.8%	27.2%	23.3%	27.8%
Dividend yield	4.5%	5.6%	5.6%	5.2%	5.2%
Risk-free interest rate	1.6%	0.7%	0.4%	0.4%	0.5%
Value per option (pence)	325.0	209.7	174.6	324.5	419.7

Former options under the May Gurney scheme granted to May Gurney employees were converted to options over Kier Group plc shares at the acquisition date. The option life shown above is the period from acquisition.

25 Share-based payments continued

Long Term Incentive Plan (LTIP)

Date of grant	17 November 2011 (EPS element)	17 November 2011 (TRS element)	13 September 2012 (EPS element)	13 September 2012 (TSR element)	21 October 2013 (EPS element)	21 October 2013 (TSR element)
Share price at grant (pence)	1,398	1,398	1,399	1,399	1,797	1,797
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Option life (years)	3	3	3	3	3	3
Expected volatility	n/a	31.6%	n/a	28.1%	n/a	28.6%
Dividend yield	4.6%	4.6%	4.7%	4.7%	3.8%	3.8%
Risk-free interest rate	n/a	0.7%	n/a	0.4%	n/a	0.8%
Value per option (pence)	1,218.5	868.9	1,214.3	627.8	1,604.2	1,366.7

The value per option represents the fair value of the option less the consideration payable.

The fair value of the TSR element incorporates an assessment of the number of shares that will be awarded, as the performance conditions are market conditions under IFRS 2 'Share-based Payments'.

The performance conditions of the EPS element are non-market conditions under IFRS 2. The fair value therefore does not include an assessment of the number of shares that will be awarded. Instead the amount charged for this element is based on the fair value factored by a 'true-up' for the number of awards that are expected to vest.

The expected volatility is based on historical volatility over the last three years. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

£4.0m relating to share-based payments has been recognised in the income statement as employee costs (2013: £4.0m). Included in other payables is an amount of £0.5m (2013: £0.3m) relating to provisions for employer's national insurance.

A reconciliation of option movements is shown below:

	2014		2013	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at 1 July	**3,057,902**	**464.9p**	3,483,182	533.8p
Converted from May Gurney schemes	**345,201**	**744.0p**	–	–
Forfeited	**(636,895)**	**265.8p**	(331,015)	381.6p
Exercised	**(592,482)**	**674.6p**	(1,192,027)	578.5p
Granted	**570,229**	**–**	1,097,762	504.3p
Outstanding at 30 June	**2,743,955**	**404.3p**	3,057,902	464.9p
Exercisable at 30 June	**–**	**–**	–	–

The options outstanding at 30 June 2014 have a weighted average remaining contractual life of 1.27 years (2013: 1.59 years).

26 Guarantees and contingent liabilities

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

27 Financial instruments

Capital risk management

The Group's capital management objectives are: to ensure the Group's ability to continue as a going concern; to optimise the capital structure in order to minimise the cost of capital; and to maintain a strong balance sheet to support business development and tender qualification. The three operating divisions of the Group have complementary capital characteristics, with the Construction division, and to a lesser extent the Services division, generating a net cash surplus, whilst the Property division requires net capital to fund developments. The Group's capital management strategy is to use a blend of capital types with different risk, return and maturity profiles to support the operating divisions and deliver the Group's capital management objectives. The Group's overall capital risk management strategy remains unchanged from 2013.

The capital structure of the Group comprises: equity, consisting of share capital, share premium, retained earnings and other reserves as disclosed in the consolidated statement of changes in equity; and cash, cash equivalents and borrowings as disclosed in note 20 and described further below. The Group forecasts and monitors short, medium and longer-term capital needs on a regular basis and adjusts its capital structure as required through the payment of dividends to shareholders, the issue of new share capital and the increase or repayment of borrowings. All investment decisions are made with regard to the Group's weighted average cost of capital and typically a pre-tax annualised return of at least 15% is required to ensure such investments are value enhancing for shareholders.

Financial risk management

Financial risk management is an integral part of the way the Group is managed. In the course of its business, the Group is exposed primarily to credit risk, market risk and liquidity risk. The overall aim of the Group's financial risk management policies is to minimise any potential adverse effects on financial performance and net assets.

The Group's treasury team manages the principal financial risks within policies and operating limits approved by the Board. Treasury is not a profit centre and does not enter into speculative transactions. Derivative financial instruments are used to hedge exposure to fluctuations in interest and exchange rates.

Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and interest rate and currency hedges.

Policies and procedures exist to ensure that customers have an appropriate credit history. The Group's most significant clients are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the client.

Short-term bank deposits and hedging transactions are executed only with highly credit-rated authorised counterparties based on ratings issued by the major ratings agencies. Counterparty exposure positions are monitored regularly so that credit exposures to any one counterparty are within predetermined limits. At the balance sheet date there were no significant concentrations of credit risk.

Trade and other receivables included in the balance sheet are stated net of a bad debt provision which has been estimated by management following a review of individual, receivable accounts. There is no Group-wide rate of provision and provision made for debts that are overdue is based on prior default experience and known factors at the balance sheet date. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable.

An analysis of the provision held against trade receivables is set out below.

	2014 £m	2013 £m
Provision as at 1 July	1.3	1.2
Acquired in the year	1.8	–
Charged/(credited) to the income statement	(0.8)	0.1
Provision as at 30 June	2.3	1.3

There were £48.8m (2013: £13.2m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £37.8m (2013: £7.7m) had been received by the end of August 2014. There are no indications as at 30 June 2014 that the debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are overdue and unprovided. The proportion of trade receivables at 30 June 2014 that were overdue for payment was 13.6% (2013: 5.7%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Construction	36 days (2013: 46 days)
Services	41 days (2013: 34 days)

Overall, the Group considers that it is not exposed to significant credit risk.

27 Financial instruments continued

Market risk

Interest rate risk

The Group has borrowing facilities to finance short-term working capital requirements and term loans to finance medium-term capital requirements, which carry interest at floating rates, at a margin over LIBOR. The Group's borrowings can be analysed as follows:

	2014 £m	2013 £m
Fixed rate	62.7	62.7
Variable rate	172.5	29.8
	235.2	92.5

In addition, a number of the Group's PFI joint ventures have entered into interest rate swaps.

Foreign currency risk

The Group operates primarily within the UK such that its exposure to currency risk is not considered to be significant. Where significant foreign currency exposures are identified, these are hedged using forward foreign exchange contracts or swaps.

Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a Group of relationship banks in the form of unsecured committed borrowing facilities. The amount of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels.

Derivative financial instruments

At 30 June 2014	Current liabilities £m	Non-current liabilities £m	Total liabilities £m
Fuel price forward contracts	0.1	0.3	0.4

Fuel price forward contracts have been accounted for as derivatives held at fair value through the income statement. The fair value of these contracts has been determined based on a level 2 valuation method, using valuation techniques that include inputs that are based on observable market data.

During 2013 Kier Group plc entered in to three cross-currency fixed interest rate swaps to hedge the interest rate and currency risk on a US dollar denominated loan, nominal value USD28m. These swaps have continued to meet the criteria for hedge accounting and as a result have been recognised directly in equity.

The following table indicates the periods in which the cashflows associated with cash flow hedges are expected to occur, how those cashflows will impact the income statement and the fair value of the related hedging instruments.

		Expected cash flows				
	Fair value £m	Total £m	0-1 years £m	1-2 years £m	2-5 years £m	More than 5 years £m
Interest rate swaps:						
Liabilities	1.7	6.7	0.9	0.9	2.7	2.2

In addition to the above, a number of the Group's PFI joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. Interest-bearing debts and associated interest rate derivatives within these joint ventures have a typical term of between 25 and 30 years and are without recourse to the Group. At 30 June 2014 the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £111.4m. The Group's share of the total net fair value liability of these interest rate derivatives at 30 June 2014, based on quoted prices in active markets, amounted to £11.8m which, together with the related deferred tax asset of £2.7m, have met the criteria for hedge accounting and as a result have been recognised directly in equity.

Financial assets

Loans and receivables at amortised cost, cash and cash equivalents:

	2014 £m	2013 £m
Cash and cash equivalents	**112.4**	152.3
Trade and other receivables excluding prepayments	**550.8**	333.0
	663.2	485.3

Included in the above are £23.5m of trade and other receivables due after more than one year.

Financial liabilities – analysis of maturity dates

At 30 June 2014 the Group had the following financial liabilities together with the maturity profile of their contractual cash flows:

	Financial liabilities at amortised cost					
30 June 2014	Trade and other payables* £m	Deferred consideration on acquisition £m	Borrowings £m	Finance lease obligations £m	Derivative financial instruments £m	Total £m
Carrying value	**940.8**	**1.0**	**235.2**	**87.0**	**2.1**	**1,266.1**
Contractual cash flows						
Less than one year	**931.5**	**1.0**	**45.0**	**29.5**	**1.0**	**998.6**
One to two years	**9.3**	–	**5.2**	**24.3**	**1.0**	**48.9**
Two to three years	–	–	**84.1**	**21.0**	**1.1**	**106.2**
Three to four years	–	–	**3.5**	**11.4**	**0.9**	**15.8**
Four to five years	–	–	**55.1**	**5.0**	**0.9**	**61.0**
Over five years	–	–	**66.7**	**1.2**	**2.2**	**70.1**
	940.8	**1.0**	**259.6**	**92.4**	**7.1**	**1,300.9**
30 June 2013†						
Carrying value	697.5	27.7	92.5	13.7	0.6	832.0
Contractual cash flows						
Less than one year	691.4	28.1	2.9	3.1	0.1	725.6
One to two years	6.1	–	2.9	3.0	0.2	12.2
Two to three years	–	–	2.9	3.0	0.3	6.2
Three to four years	–	–	32.9	2.8	–	35.7
Four to five years	–	–	2.9	2.1	–	5.0
Over five years	–	–	71.8	0.8	–	72.6
	697.5	28.1	116.3	14.8	0.6	857.3

* Trade and other payables excludes deferred consideration, deferred income, taxes and social security and payments on account.

† The prior year comparatives have been re-presented to include sub-contract retentions, construction contract balances and accruals.

There is no material difference between the carrying value and fair value of the Group's financial assets and liabilities. The carrying value is calculated by discounting expected future cash flows.

The Group's derivatives are classified as level 2.

Borrowings and borrowing facilities

The Group has the following unsecured committed facilities:

- Revolving credit facility £190m, at a margin over LIBOR, due for renewal in September 2018, £55.0m drawn at 30 June 2014 (2013: £nil)
- Two term loans at a margin over LIBOR, £50m repayable September 2016 and £30m, repayable January 2017, fully drawn at 30 June 2014, £80m (2013: £30m); and
- Two loan notes, principal amounts of £45m and USD28m with fixed coupons of between 4.2% and 4.9%, repayable in two repayments, December 2019 and December 2022, fully drawn at 30 June 2014, £62.7m (2013: £62.7m).

In addition the Group has an unsecured overdraft of £45m (2013: £20m), at a margin over LIBOR, repayable on demand, £39.8m drawn at 30 June 2014 (2013: £nil).

The committed facilities are subject to certain covenants linked to the Group's financing structure, specifically regarding the ratios of debt to interest and profit, and consolidated net worth. The Group has complied with these covenants throughout the period.

Included within borrowing are capitalised loan fees of £2.3m (2013: £0.2m).

28 Financial and capital commitments

	2014 £m	2013 £m
Commitments for capital expenditure	**7.3**	2.3
Commitments for equity and subordinate debt in PFI joint ventures	**23.4**	25.2
	30.7	27.5

Non-cancellable operating lease rentals are payable as follows:

	2014		2013	
	Property £m	**Plant and machinery £m**	Property £m	Plant and machinery £m
Within one year	**6.3**	**19.7**	4.3	16.5
Between one and five years	**16.4**	**23.9**	7.7	25.2
Over five years	**11.1**	**1.6**	6.3	2.3
	33.8	**45.2**	18.3	44.0

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period beyond 30 June 2014 of 14 years. Vehicle leases typically run for a period of four years. None of the leases include contingent rentals.

29 Related parties

Identity of related parties

The Group has a related party relationship with its joint arrangements, key management personnel and pension schemes in which its employees participate.

Transactions with key management personnel

The Group's key management personnel are the executive and non-executive directors as identified in the directors' remuneration report on pages 67 to 85.

In addition to their salaries, the Group also provides non-cash benefits to directors and contributes to their pension arrangements as disclosed on page 77. Key management personnel also participate in the Group's share option programme (see note 25).

Key management personnel compensation comprised:

	2014 £m	2013 £m
Total emoluments as analysed in the directors' remuneration report	**3.2**	3.0
Employer's national insurance contributions	**0.4**	0.4
Total short-term employment benefits	**3.6**	3.4
Share-based payment charge	**0.7**	0.8
	4.3	4.2

Transactions with pension schemes

Details of transactions between the Group and pension schemes in which its employees participate are detailed in note 8.

Transactions with joint arrangements and joint ventures

	2014 £m	2013 £m
Staff and associated costs	**38.1**	42.3
Management services	**0.5**	0.7
Interest on loans to joint ventures	**1.5**	1.3
	40.1	44.3

Amounts due from joint ventures are analysed below:

	2014 £m	2013 £m
Information Resources (Oldham) Limited	**0.9**	0.9
Kier Hammersmith Limited	**6.6**	–
Salford Village Limited	**2.0**	–
Watford Health Campus Partnership LP	**0.2**	–
Biogen Holdings Limited	**(2.0)**	–
Justice Support Services (Norfolk and Suffolk) Limited	**–**	3.4
Justice Support Services (North Kent) Limited	**–**	1.9
Kent PFI Company 1 Limited	**–**	6.1
	7.7	12.3

30 Acquisitions and disposals

(a) Summary of consideration paid and payable in respect of acquisitions

	Beco Limited £m	Kier Developments Limited £m	North Tyneside Council £m	Pure Recycling £m	May Gurney £m	Total £m
Discounted balance payments at 30 June 2012	0.9	54.5	1.8	1.5	–	58.7
Credited to the income statement	(0.7)	–	–	(0.3)	–	(1.0)
Paid during the year to 30 June 2013	(0.3)	(30.0)	–	(1.2)	–	(31.5)
Unwinding of discount	0.2	1.2	0.1	–	–	1.5
Discounted balance payments at 30 June 2013	0.1	25.7	1.9	–	–	27.7
Acquisition of May Gurney (note 30b)	–	–	–	–	38.5	38.5
Paid during the year to 30 June 2014	(0.1)	(26.0)	(1.0)	–	(38.5)	(65.6)
Unwinding of discount	–	0.3	0.1	–	–	0.4
Balance payable at 30 June 2014	**–**	**–**	**1.0**	**–**	**–**	**1.0**

30 Acquisitions and disposals continued

(b) Acquisition of May Gurney

The Group purchased the entire share capital of May Gurney on 8 July 2013 for a total consideration of £222.3m. May Gurney provides support services and delivers a wide range of essential front-line services to the public and regulated sectors. The acquisition represented an excellent opportunity to accelerate Kier's strategy for its Services division. The Kier Board believes the acquisition is highly complementary and will provide an increased breadth of services, skills, geographic coverage and operating efficiencies, representing an attractive proposition for its clients (and those of the enlarged Group) and enhanced value for the shareholder base of the enlarged Group.

The fair value of the intangible assets acquired represents the fair value of customer contracts at the date of acquisition. During the second half of the year we continued to review the fair value of the May Gurney net assets acquired and, subsequent to the issue of the interim results as at 31 December 2013, further adjustments were made, principally to provisions for contract losses, current tax asset and deferred tax liabilities. The fair value of the assets acquired was estimated at 31 December 2013 at £30.4m and the amendments to 30 June 2014, which will not change, reduce the fair value of the net assets acquired to £27.6m.

The goodwill arising on acquisition is attributable to the knowledge and expertise of the assembled workforce and the operating synergies that arise from the Group's strengthened market position. None of the goodwill recognised is expected to be deductible for tax purposes.

£8.1m (2013: £1.8m) of acquisition costs were incurred in the year and expensed to the income statement as an exceptional item.

	Fair value to the Group £m
Intangible assets	106.7
Property, plant and equipment	87.1
Inventories	64.0
Trade receivables	76.2
Trade and other payables	(152.2)
Overdraft	(16.8)
Borrowings	(20.0)
Taxation	9.4
Deferred tax liabilities	(11.4)
Retirement benefit obligations	3.7
Obligations under finance leases	(62.6)
Provisions	(56.5)
	27.6
Goodwill	194.7
Total assets acquired	**222.3**
Satisfied by:	
Shares	183.8
Cash*	38.5
Total consideration	**222.3**

* Cash consideration includes a dividend of £3.8m.

The pro forma consolidated results of the Group, as if the acquisition of May Gurney Integrated Services plc had been made at the beginning of the year, would include revenue from continuing operations of £2,999.9m (compared to the Group revenue of £2,985.2m) and underlying profit before taxation of £72.6m (compared to the reported underlying profit before taxation of £73.1m). In preparing the pro forma results, revenue and costs have been included as if the businesses were acquired on 1 July 2013 and the inter-company transactions have been eliminated. This information is not necessarily indicative of the results of the combined Group that would have occurred had the purchase actually been made at the beginning of the year, or indicative of the future results of the combined Group.

The May Gurney business contributed to the Group, revenue of £697m and underlying profit before taxation of £32.8m for the period 8 July 2013 to 30 June 2014.

(c) Deemed disposal of investment in joint venture and subsequent acquisition as a subsidiary of Justice Support Services (Norfolk and Suffolk) Holdings Limited

On 4 April 2014 the Group acquired 100% of the share capital of Justice Support Services (Norfolk and Suffolk) Holdings Limited (JSS). JSS had previously been held as a joint venture of which the Group had a 42.5% holding. On 17 February 2014 the Group increased its holding in JSS from 42.5% to 57.5% at a cost of £0.7m. JSS continued to be classified as a joint venture as joint control remained in place. The remaining 42.5% of the share capital of JSS was acquired from the joint venture partner on 4 April 2014 for £4.0m. This transaction has been treated as a deemed disposal of a joint venture (see below) and subsequent acquisition of a subsidiary. A gain of £1.1m arose on the deemed disposal of the joint venture.

The gain on deemed disposal of the joint venture is calculated as follows:

	£m
Deemed consideration	**5.4**
Cost of investment	**(4.3)**
Gain on deemed disposal	**1.1**

Provisional fair values of assets and liabilities at acquisition:

	Provisional carrying value at acquisition £m
Non-current assets	65.6
Current assets	2.2
Cash at bank	4.8
Current liabilities	(5.1)
Borrowings	(57.7)
	9.8
Negative goodwill	(0.4)
Total assets acquired	**9.4**
Satisfied by:	
Cash	4.0
Deemed consideration	5.4
Total consideration	**9.4**

Subsequent to the acquisition on 4 April 2014, but before 30 June, the Group decided to dispose of JSS within 12 months of the balance sheet date and negotiations are ongoing with a number of interested parties. As a result at the balance sheet date JSS is held as an asset held for resale.

(d) Disposal of investments in joint ventures

During the year the Group, through its subsidiary Kier Project Investment Limited, sold its investments in the following joint ventures:

Justice Support Services (North Kent) Holdings Limited and Kent PFI Holdings Company 1 Limited.

The disposal proceeds can be reconciled to the profit on disposal as follows:

	2014 £m	2013 £m
Sales proceeds	**17.3**	13.0
Book value of net assets and loans of joint ventures	**(9.4)**	(3.1)
Intangible assets sold	**(1.8)**	–
Sale costs	**–**	(0.1)
Profit on disposal	**6.1**	9.8

30 Acquisitions and disposals continued

(e) Sale of plant business

On 5 August 2013, the Group through its subsidiary Kier Plant Limited, sold the remainder of its plant business (tower cranes) for a consideration of £5.2m. The total impact of this disposal is a loss of £2.6m which was recorded in the income statement in the year to June 2013 as an exceptional item. The disposal proceeds can be reconciled to the loss as follows:

	2014 £m	2013 £m
Maximum aggregate consideration	**5.2**	14.5
Less provision for disposal costs	**(1.0)**	(1.5)
Fair value less provision for disposal costs	**4.2**	13.0
Carrying value of assets sold	**(6.8)**	(16.2)
Loss	**(2.6)**	(3.2)

The carrying value of the assets sold was originally held in property, plant and equipment.

The loss on disposal in 2013 was recorded in the income statement in the year to 30 June 2012 as an exceptional item.

31. Change of accounting policy

The amendment to IAS 19 has changed the accounting for defined benefit schemes and termination benefits. The interest cost and expected return on scheme assets used in the previous version of IAS 19 have been replaced with a net interest cost which is calculated by applying a discount rate to the net defined benefit obligation. The amendment has a corresponding impact on the actuarial gains and losses recognised in the statement of comprehensive income, with no overall change to the net retirement benefit liability in the balance sheet.

The Group adopted the amendment to IAS 19 on 1 July 2013 and has restated prior year information, which had the following impact on reported profit, earnings per share and comprehensive income in 2013:

Statement of comprehensive income	**Actuarial losses £m**	**Deferred tax £m**	**2013 Total £m**
As previously reported	(24.2)	2.9	(21.3)
Impact of amendment to IAS 19	17.1	(4.1)	13.0
Restated	**(7.1)**	**(1.2)**	**(8.3)**

Income statement	**Profit before tax £m**	**Taxation £m**	**2013 Profit after tax £m**
As previously reported	43.0	(4.4)	38.6
Impact of amendment to IAS 19			
Operating profit	(14.2)	3.4	(10.8)
Finance costs	(2.9)	0.7	(2.2)
	(17.1)	4.1	(13.0)
Restated	**25.9**	**(0.3)**	**25.6**

Earnings per share (pence)	**Basic**	**Diluted**	**Adjusted**
As previously reported	95.8	94.8	136.2
Impact of amendment to IAS 19	(33.2)	(32.8)	(33.1)
Impact of representation of acquisition discount unwind*	–	–	2.5
Restated	**62.6**	**62.0**	**105.6**

* Unwind of discount in respect of deferred consideration.

32. Subsequent events

On 29 August 2014 the Group, through its subsidiary Kier Project Investment Limited, sold its 50% holding in Information Resources (Oldham) Holdings Limited for a total consideration of £2.4m. The expected impact of this disposal is a profit of £1.2m before disposal costs.

Company balance sheet
At 30 June 2014
(registered company number 2708030)

	Notes	2014 £m	2013 £m
Fixed assets			
Investments in subsidiaries	5	**384.2**	90.3
Current assets			
Debtors	6	**2.9**	8.7
Cash and cash equivalents		**156.7**	139.3
		159.6	148.0
Current liabilities			
Creditors – amounts falling due within one year	7	**(29.0)**	(39.7)
Net current assets		**130.6**	108.3
Total assets less current liabilities		**514.8**	198.6
Non-current liabilities			
Creditors – amounts falling due after more than one year	7	**(195.4)**	(92.5)
Net assets		**319.4**	106.1
Shareholders' funds			
Share capital	8	**0.6**	0.4
Share premium	9	**73.7**	63.3
Merger reserve	9	**184.8**	1.2
Capital redemption reserve	9	**2.7**	2.7
Profit and loss account	9	**57.6**	38.5
Total shareholders' funds	10	**319.4**	106.1

The financial statements were approved by the Board of directors on 17 September 2014 and were signed on its behalf by:

Haydn Mursell
Director

Notes to the Company financial statements
For the year ended 30 June 2014

1 Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material.

Basis of preparation
The financial statements have been prepared under the historical cost convention, on the going concern basis and in accordance with applicable accounting standards and the Companies Act 2006.

Fixed asset investments
Investments in subsidiary undertakings are included in the balance sheet at cost less any provision for diminution in value.

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

Own shares
The cost of the Company's investment in its own shares, which comprises shares held by the Kier Group 1999 Employee Benefit Trust for the purpose of funding the Company's share option plans, is shown as a reduction in shareholders' funds in the profit and loss account.

Share-based payments
The Company issues equity-settled share-based payments under the Sharesave and LTIP schemes. The fair value of these schemes at the date of grant is expressed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest.

Financial instruments
The Company's principal financial assets and liabilities are cash at bank and borrowings. Cash at bank is carried in the balance sheet at nominal value. Borrowings are recognised initially at fair value and subsequently at amortised cost.

The consolidated financial statements include disclosures in note 27 under IFRS 7 which comply with FRS 29 'Financial Instruments and Disclosures'. Consequently, the Company has taken advantage of certain exemptions in FRS 29 from the requirement to present separate financial instrument disclosures for the Company.

2 Profit for the year
As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year.

The auditor's remuneration for audit services to the Company was £0.1m (2013: £0.1m).

3 Information relating to directors and employees
Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 67 to 85. The Company has no employees other than the directors.

4 Dividends
Details of the dividends paid by the Company are included in note 10 to the consolidated financial statements.

5 Fixed assets – investments

	£m
Cost at 30 June 2013	105.3
Additions	278.9
Cost at 30 June 2014	384.2
Provision for diminution in value	
At 30 June 2013	(15.0)
Write back to the profit and loss account	15.0
At 30 June 2014	–

Net book value at	
30 June 2014	384.2
30 June 2013	90.3

The directors believe that the carrying value of investments is supported by the present value of the forecast future cash flows generated by those investments. Given the improvement in the future forecast cash flows of Kier Living Limited the provisions for the diminution in respect of this investment has been written back to the profit and loss account.

6 Debtors

	2014 £m	2013 £m
Other debtors	**2.6**	5.6
Deferred tax	**1.0**	0.7
Corporation tax	**(0.7)**	2.4
	2.9	8.7

7 Creditors

	2014 £m	2013 £m
Amounts falling due within one year:		
Amounts due to Group undertakings	**27.8**	36.8
Other creditors	**1.2**	2.9
	29.0	39.7

	2014 £m	2013 £m
Amounts falling due after more than one year:		
Borrowings	**195.4**	92.5

Further details on borrowings are included in note 27 to the consolidated financial statements.

8 Share capital

Details of the share capital of the Company are included in note 24 to the consolidated financial statements.

9 Reserves

The movement in reserves is as follows:

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 30 June 2012	0.4	55.0	1.2	2.7	38.7	**98.0**
Issue of own shares	–	8.3	–	–	–	**8.3**
Movement in provision for share-based payments	–	–	–	–	4.0	**4.0**
Purchase of own shares	–	–	–	–	(1.7)	**(1.7)**
Profit for the year	–	–	–	–	23.3	**23.3**
Dividends paid	–	–	–	–	(25.8)	**(25.8)**
At 30 June 2013	0.4	63.3	1.2	2.7	38.5	**106.1**
Issue of own shares	0.2	10.4	183.6	–	–	**194.2**
Movement in provision for share-based payments	–	–	–	–	3.7	**3.7**
Purchase of own shares	–	–	–	–	(1.1)	**(1.1)**
Profit for the year	–	–	–	–	53.8	**53.8**
Dividends paid	–	–	–	–	(37.3)	**(37.3)**
At 30 June 2014	**0.6**	**73.7**	**184.8**	**2.7**	**57.6**	**319.4**

Included in the profit and loss account is the balance on the sharescheme reserve which comprises the investment in own shares of £4.7m (2013: £6.0m) and a credit balance on the sharescheme reserve of £7.3m (2013: £7.0m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment schemes are included in note 25 to the consolidated financial statements.

Principal operating subsidiaries and business units

Construction

Kier Construction Limited

Building
- Central
- Eastern
- London
- Major Projects
- Northern
- Scotland
- Southern
- Western & Wales
- Strategic Frameworks and Alliances

Specialist businesses
- Engineering
- Process & Engineering

Kier Infrastructure and Overseas Limited

Services

Kier Services Limited

Housing Maintenance
- Kier Harlow Limited
- Kier Islington Limited
- Kier North Tyneside Limited
- Kier Sheffield LLP
- Kier Stoke Limited

Facilities Management
- Kier Facilities Services Limited

Environmental
- Pure Buildings Limited
- Pure Recycling Warwick Limited

Asset Management
- Kier Asset Partnership Services Limited

Energy Solutions
- Kier Energy Solutions Limited

Insurance Management
- Kier Insurance Management Services Limited

Plant and Fleet Management
- Kier Plant Limited

Kier May Gurney
- Kier MGIS Limited
- Kier MG Limited
- Kier MG Estates Limited
- Kier MG Recycling Limited
- Kier FPS Limited
- Tor2 Limited

Property

Kier Property Limited

Kier Developments Limited
Kier Ventures Limited

Kier Project Investment Limited

Kier Homes Limited
Kier Partnership Homes Limited

Corporate

Kier Limited

Notes:

i) Each company is registered in England and Wales and operates principally within the United Kingdom. Kier Infrastructure and Overseas Limited also operates in Hong Kong, the Middle East and the Caribbean.

ii) The Group has entered into partnership agreements with Harlow Council, North Tyneside Council, Sheffield City Council and Stoke-on-Trent City Council whereby the respective councils have a participating ownership interest and receive a minority share of the profits of Kier Harlow Limited, Kier North Tyneside Limited, Kier Sheffield LLP and Kier Stoke Limited.

iii) The ordinary share capital of all other companies is wholly owned. Kier Group plc holds directly all the shares of Kier Limited and Kier Homes Limited and Kier MG is Limited. The shares of the other companies are held by subsidiary undertakings.

iv) The Company has taken advantage of the exemption under section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results principally affected the financial statements. A full listing of all subsidiary undertakings will be annexed to the Company's next annual return.

Principal joint arrangements

Joint arrangements

Construction
The following joint arrangements, in which the Group participation is between 30% and 50%, operate in the United Kingdom:

KMI Plus	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited, Interserve Project Services Limited and Mouchel Limited
KMI	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited and Interserve Project Services Limited
Crossrail Contracts 300/410/435	a joint arrangement between Kier Infrastructure and Overseas Limited, BAM Nuttall Limited and Ferrovial Agroman (UK) Limited
Crossrail Contracts 501/511	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited
Hinkley Point C	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited

The following joint arrangements, in which the Group participation is between 30% and 65%, operate overseas in the territory indicated:

Hong Kong

MTRC Contract 824	a joint arrangement between Kier Infrastructure and Overseas Limited, Kaden Construction Limited and Obras Subterráneas S.A.
MTRC Contract 901	a joint arrangement between Kier Infrastructure and Overseas Limited, Laing O'Rourke Hong Kong Limited and Kaden Construction Limited

Joint ventures

	Interest held
Construction	
Incorporated and operating in the Kingdom of Saudi Arabia:	
Saudi Comedat Co.	25%
Property	
Solum Regeneration Limited Partnership	50%
Biogen Holdings Limited	50%
Kier Sydenham Limited Partnership	50%
Kier Hammersmith Limited	50%
Watford Health Campus Partnership LLP	50%
Long-term concession holding under the Private Finance Initiative	
Information Resources (Oldham) Holdings Limited	50%
Salford Village Limited	25%
Blue 3 (London) (Holdings) Limited	50%
Blue 3 (Staffs) (Holdings) Limited	80%
Evolution (Woking) Holdings Limited	50%

Notes:

i) Joint operations are contracted agreements to co-operate on a specific project which is an extension of the Group's existing business. Joint ventures are ongoing businesses carrying on their own trade.
ii) Except where otherwise stated the companies are incorporated and operate in the United Kingdom.
iii) Interests in the above joint ventures are held by subsidiary undertakings.
iv) The joint ventures where the Group has an interest in excess of 50% are still considered joint ventures as the Group still has joint control.

Financial record
(unaudited)

Year ended 30 June	**2014*** **£m**	2013*† £m	2012*† £m	2011*† £m	2010*† £m
Revenue: Group and share of joint ventures	**2,985.2**	1,982.8	2,069.2	2,178.8	2,098.7
Profit					
Group operating profit	**80.3**	44.8	55.0	56.3	61.5
Share of post-tax results of joint ventures	**1.6**	0.9	1.3	0.4	(1.3)
Profit on disposal of joint ventures	**6.1**	9.8	6.7	5.9	4.2
Underlying operating profit	**88.0**	55.5	63.0	62.6	64.4
Underlying net finance cost	**(14.9)**	(7.9)	(3.0)	(4.0)	(7.0)
Underlying profit before tax	**73.1**	47.6	60.0	58.6	57.4
Exceptional items	**(42.2)**	(17.0)	(3.6)	7.0	(2.0)
Amortisation of intangible assets relating to contract rights	**(10.8)**	(3.4)	(3.4)	(3.4)	(2.9)
Non-underlying net finance cost	**(5.3)**	(1.3)	(2.3)	(0.4)	–
Profit before tax	**14.8**	25.9	50.7	61.8	52.5
Adjusted basic earnings per share	**107.7p**	105.6p	136.9p	127.9p	121.3p
Dividend per share	**72.0p**	68.0p	66.0p	64.0p	58.0p
At 30 June					
Shareholders' funds (£m)	**309.7**	158.3	154.2	164.2	104.2
Net assets per share	**560.4p**	397.3p	397.2p	430.3p	278.0p

* Non-underlying items include one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition. Years 2013, 2012 and 2011 comparatives have been re-presented to reflect this presentation.

† Restated to reflect the amendment to IAS 19 (see note 31).

Corporate information

Board of directors
P M White CBE FCA – Chairman
H J Mursell BA ACA
S Bowcott BSc
R C Bailey BA ACA
A K Bashforth MA
A J Mellor BSc FCIS
N P Winser CEng FIET FIGEM

Secretary
H E E Raven BA

Headquarters and registered office
Kier Group plc
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Registered number
England 2708030

Financial calendar
13 November 2014
Annual general meeting

28 November 2014
Payment of final dividend for year ended 30 June 2014

February 2015
Announcement of half-year results and interim dividend for year ending 30 June 2015

May 2015
Payment of interim dividend for year ending 30 June 2015

September 2015
Announcement of preliminary full-year results and final dividend for year ending 30 June 2015

Auditor
KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Principal bankers
Lloyds Banking Group plc
10 Gresham Street
London
EC2V 7AE

HSBC Bank plc
Metropolitan House
321 Avebury Boulevard
Milton Keynes
MK9 2GA

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2 Triton Square
Regent's Place
London
NW1 3AN

The Royal Bank of Scotland PLC
280 Bishopsgate
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EC2M 4RB

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Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

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20 Moorgate
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EC2R 6DA

Numis Securities Limited
10 Paternoster Square
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EC4M 7LT