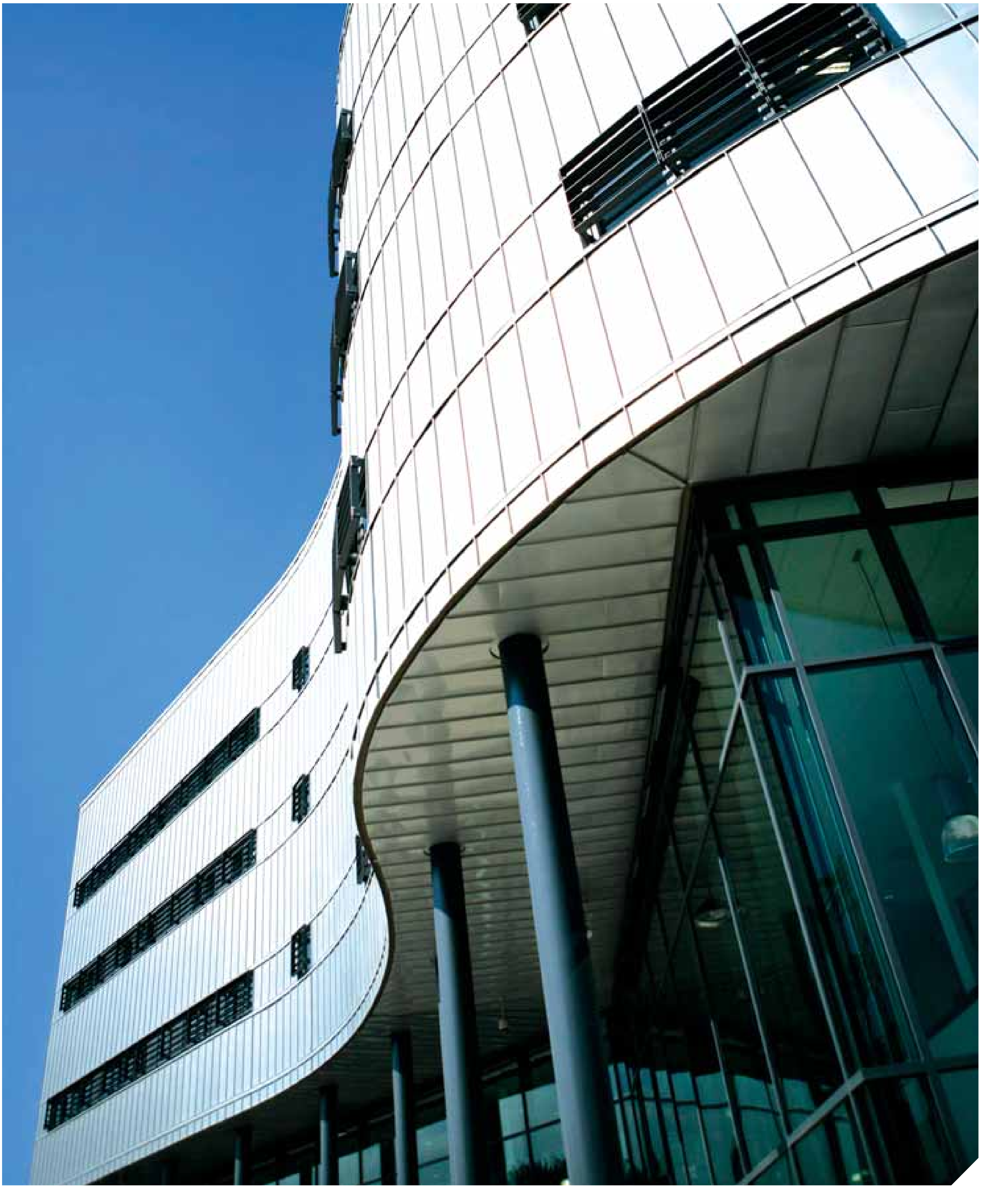
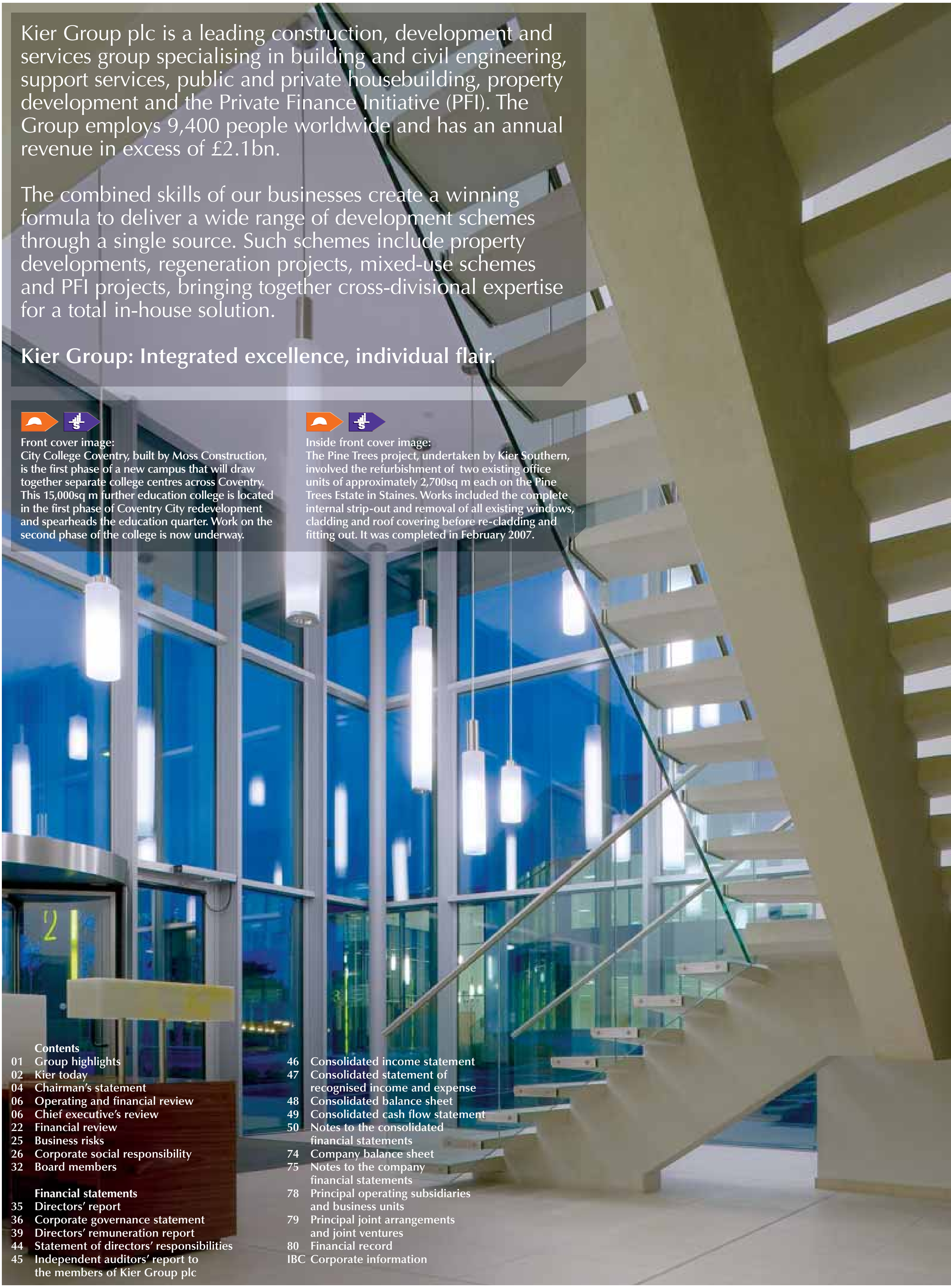
Kier Group plc
Annual report and accounts 2007

Integrated excellence, individual flair





Kier Group plc is a leading construction, development and services group specialising in building and civil engineering, support services, public and private housebuilding, property development and the Private Finance Initiative (PFI). The Group employs 9,400 people worldwide and has an annual revenue in excess of £2.1bn.

The combined skills of our businesses create a winning formula to deliver a wide range of development schemes through a single source. Such schemes include property developments, regeneration projects, mixed-use schemes and PFI projects, bringing together cross-divisional expertise for a total in-house solution.

Kier Group: Integrated excellence, individual flair.

Front cover image:
City College Coventry, built by Moss Construction, is the first phase of a new campus that will draw together separate college centres across Coventry. This 15,000sq m further education college is located in the first phase of Coventry City redevelopment and spearheads the education quarter. Work on the second phase of the college is now underway.

Inside front cover image:
The Pine Trees project, undertaken by Kier Southern, involved the refurbishment of two existing office units of approximately 2,700sq m each on the Pine Trees Estate in Staines. Works included the complete internal strip-out and removal of all existing windows, cladding and roof covering before re-cladding and fitting out. It was completed in February 2007.

Contents

Group highlights

Fifteenth successive year of growth

Yet again, the Group is pleased to report further growth in revenue, profit and earnings per share. We remain firmly focused on continuing this pattern and are well positioned to do this, backed by our highly talented and well motivated management teams.

Pre-tax profit*
Up 31.3% to £77.6m (2006: £59.1m)

+31.3%

*Pre-tax profits are stated after deducting joint venture tax of £1.4m (2006: £1.4m).

Cash
£114.8m of cash generated from operating activities

£114.8m

Earnings per share
Up 28.3% to 155.0p (2006: 120.8p)

+28.3%

Construction and Support Services order books
At record levels

£3.5bn

Dividend per share
Full-year dividend rebased by 92.3% to 50.0p (2006: 26.0p)

+92.3%

Homes order book at 31 August 2007
11% ahead of last year by value

+11%

During the year, the Group and its constituent businesses have won no less than 158 industry awards ranging from quality and environmental achievements to health & safety, training and individual achievement accolades. Examples of these awards appear on various pages in this report, but those illustrated here include:

1. Two awards at the prestigious British Construction Industry Awards, with Kier Construction's joint venture with Nuttall on the Channel Tunnel Rail Link (CTRL 103) project winning the major project category and a combination of Kier Property, Kier Building Services Engineers, Kier Managed Services and Moss Construction winning the £3m to £50m category;

2. Kier Islington was recognised at Building's Health & Safety Awards;

3. Kier Western was highly commended at the Bath & North East Somerset Building Quality Awards;

4. Moss Construction won the education category in the 2007 Built in Quality Award for Solihull Centre for Inclusive Learning (Kier North West also won the commercial building category in the Cheshire Built in Quality Awards 2007).

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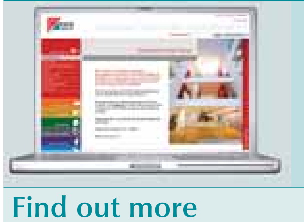


Find out more

For the latest information on Kier Group plc, visit our website:

www.kier.co.uk

KIER GROUP

Kier today
2007 operational highlights

Kier Group operates though five divisions, each focused on being best in its class.

Kier businesses

KIER GROUP

Construction

Kier Regional
Regional contracting, major building projects, affordable housing.
Kier Construction
UK civil engineering, mining and overseas operations.

Support Services

Kier Support Services
Comprehensive facilities management, reactive and planned building maintenance, M&E design and installation, plant hire and other outsourced services for both private and public sectors.

Homes

Kier Residential
High quality private housebuilding.

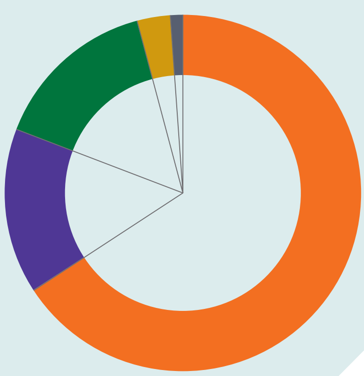
Property

Kier Property
Commercial property development.

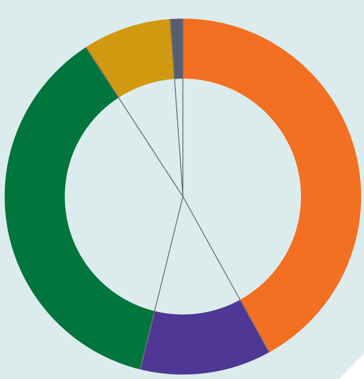
Infrastructure Investment

Kier Project Investment
Promotes and manages the Group's interests in PFI bringing together Kier's expertise and resources in construction, property development, housing and facilities management.

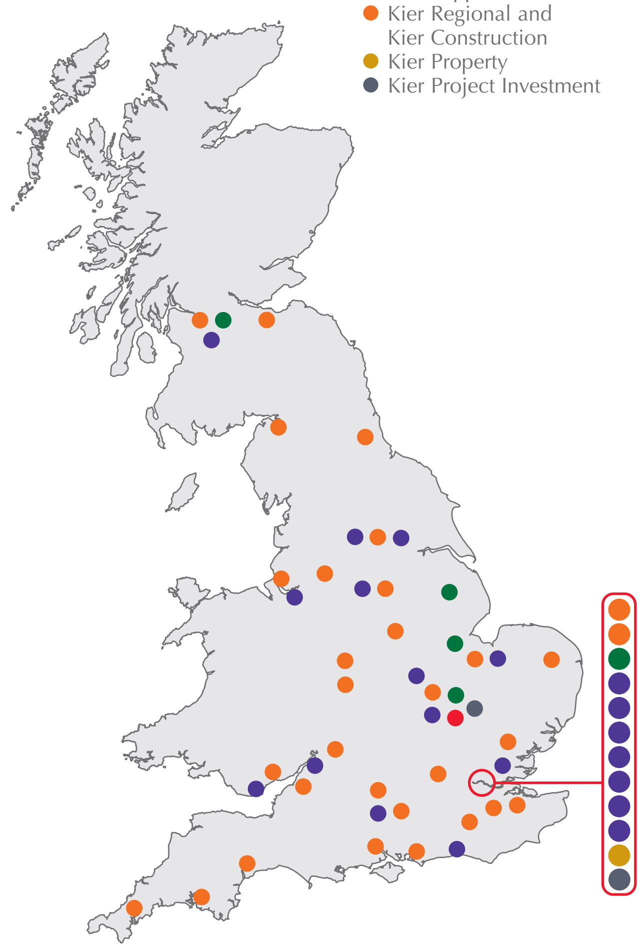
Revenue
by division in 2007



Profit
before tax by division in 2007



Kier national coverage

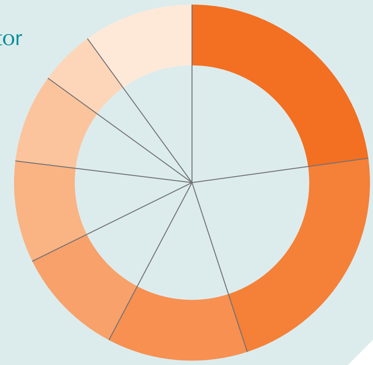


Integrated excellence, individual flair

Construction

Record revenue of £1.4bn, and order book of £1.7bn

Kier Regional % awards by sector

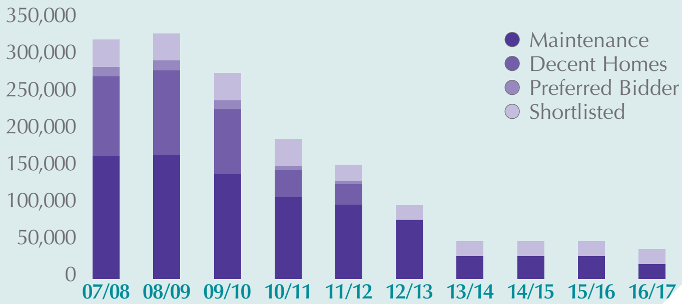


- Commercial **23%**
- Education **22%**
- Residential **13%**
- Retail **10%**
- Hotels & Leisure **9%**
- Custodial **8%**
- Health **5%**
- Other **10%**

Support Services

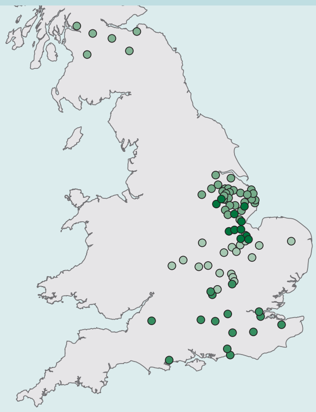
Revenue of £315m, order book of £1.8bn with £525m of new building maintenance contracts won in 2007

Building Maintenance: forward turnover



Homes
Location of consented land

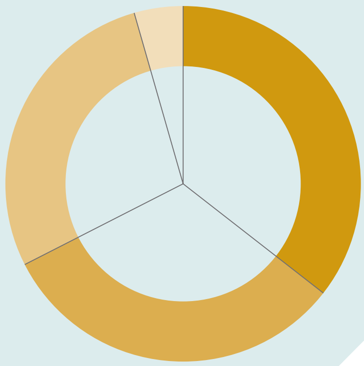
1,767 units sold, land bank of 6,465 units



- Allison Homes
- Bellwinch Homes
- Kier Homes Northern
- Kier Homes
- Twigden Homes

Property
Gross development value £940m

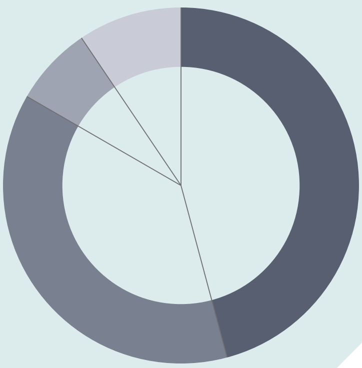
Portfolio totals 29 properties, representing over 5m sq ft of development with a prospective end value of £940m



- Office schemes **£335m**
- Mixed-usage schemes **£300m**
- Industrial schemes **£265m**
- Retail schemes **£40m**

Infrastructure Investment
Committed investment £22.8m

Portfolio of 13 PFI projects, with a committed equity investment of £22.8m



- Education **£10.5m**
- Health **£8.5m**
- Libraries **£1.7m**
- Others **£2.1m**

Integrated excellence
Strategic alliances and frameworks

Kier Health
- ProCure 21
- Local Improvement Finance Trust (LIFT)

Kier Education
- Building Schools for the Future (BSF)
- Academies national framework partner

Kier Custodial
- Ministry of Justice Custodial Properties:
  – Prison
  – Immigration
  – Probation
  – Youth Justice Board

Kier Retail
- Waitrose Limited
- Tesco Plc
- J. Sainsbury's Plc
- The British Land Company Plc
- Hermes GB Limited
- WM Morrisons Supermarkets Plc

Chairman's statement

I am delighted to report record results for Kier Group plc for the year to 30 June 2007. Revenue was up 15.8% to £2,127.9m (2006: £1,838.3m); profits before tax (before minority interests) grew 31.3% to £77.6m (2006: £59.1m) and earnings per share before the amortisation of intangible assets increased by 27.3% to 158.9p (2006: 124.8p).

Earnings per share

23%

Compound annual growth in earnings per share for the last ten years

Net cash balances

£148.4m

Combined order books for Construction and Support Services

£3.5bn

Unit sales from housebuilding

1,767

Peter Warry
Chairman

Former construction minister, the Rt Hon. Nick Raynsford MP, hosted an upbeat Kier Group reception on the House of Commons terrace where he extolled the virtues of Kier – as MP for Greenwich and Woolwich he is immersed in an area of busy Kier operations in his constituency.

Wallis' general works and decorating division recently completed the internal decoration and improvement works at St Stephen's Church in South Dulwich, London, which was originally opened in 1868.

The excellent trading result was complemented by outstanding cash performance, one of our key measures particularly within the Construction division. Net cash inflow from Group operating activities was £114.8m (2006: £96.6m) leading to year-end net cash balances of £148.4m (2006: £111.2m).

We have experienced strong order intake which led to record year-end combined order books for Construction and Support Services of £3.5bn (2006: £2.9bn). Our Homes division has had a good year with the number of unit sales 16% ahead of last year and order books at 31 August, 5% ahead of the same time last year by number of units and 11% ahead by value.

In proposing a dividend for this year we have taken into account the comparative compound annual growth rates in dividends and earnings per share over the last ten years and whilst dividends have increased at 15% per annum, earnings per share have increased at 23% per annum, widening the dividend cover over the period. It is, therefore, proposed that we adjust the dividend this year to a total of 50.0p for the year (2006: 26.0p), an increase of 92.3% and covered 3.1 times by earnings per share. Following this rebasing the Board intends to continue its progressive dividend policy. The final dividend of 40.4p will be paid on 4 December 2007 to shareholders on the register on 28 September 2007 and there will be a scrip dividend alternative.

Board changes

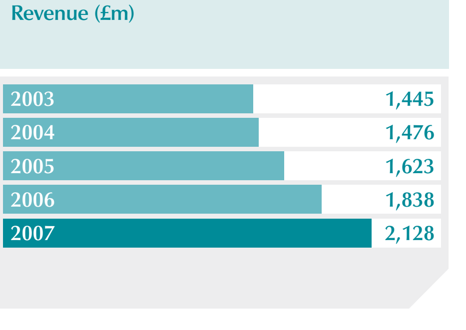
Peter Berry, non-executive director, retired from the Board on 30 June 2007 and I should like to thank him for the significant contribution he has made to the Group since joining the Board in 1997. He has advised and supported the Group through a huge amount of growth and change over the last ten years and his involvement and wise counsel will be very much missed by all of us.

I am pleased to welcome Chris Geoghegan to our Board as a non-executive director from 1 July 2007. Chris joined the Board of BAE Systems in July 2002 as chief operating officer with responsibility for European joint ventures and UK defence electronics assets. His experience will contribute significantly to the further growth of the Group.

Prospects

Our divisions are enjoying excellent market conditions, record order books and healthy cash balances all of which gives me great confidence in the prospects for the Group and for further profitable growth in 2008.

Peter Warry
Chairman



Operating and financial review
Chief executive's review

Kier Group plc has once again delivered excellent results for the year to 30 June 2007 continuing the reliable, consistent performance that has become a prominent feature of our business. This performance, a consequence of our long-term approach to both risk management and business opportunities, is reflected in the strong earnings per share record which has had a compound annual growth rate of over 23% for the last ten years and a 28.3% increase this year to 155.0p (2006: 120.8p).

In this section:

Revenue

£2.1bn

Revenue for the year of £2,127.9m was 15.8% ahead of last year

Operating profit

£77.9m

Operating profit for the year of £77.9m was 31.6% ahead of last year

John Dodds
Chief Executive

After a successful hand-over in January 2007, Westfield Secondary School, part of the Sheffield Schools PFI scheme, was officially opened by Rt Hon. Gordon Brown MP in May. Funding for the project was secured by Kier Project Investment, the schools were built by Kier Build and Kier Northern. Kier Managed Services is providing facilities management for 25 years at the schools with Kier Sheffield providing mechanical and electrical maintenance.

Moss Construction's project at Stroud College was officially opened by HRH The Princess Royal. Site agent Ben Ramsay is pictured sharing a light hearted moment with the Princess.

Revenue, profits and cash generation for the year to 30 June 2007 are at record levels. Our order books for the new financial year are very strong with ample opportunity available reflecting probably the best Construction and Support Services markets that we have ever experienced and a housing market that continues to be sound. Our integrated contractor/developer approach to mixed-use schemes continues to set us aside from others and provides excellent opportunities in the affordable housing-led regeneration sector.

Financial performance

Revenue for the year at £2,127.9m (2006: £1,838.3m) was 15.8% ahead of last year with strong growth from all of our divisions. Operating profit, after amortisation of intangible assets and joint venture interest and tax, was 31.6% ahead of last year at £77.9m (2006: £59.2m) and profit before tax increased by 31.3% to £77.6m (2006: £59.1m) before minority interests of £0.8m (2006: £nil).

Adjusted earnings per share, before the amortisation of intangible assets, increased by 27.3% to 158.9p (2006: 124.8p).

The robust trading performance was supported by excellent cash generation in the year with £114.8m generated from operating activities (2006: £96.6m) resulting in a year-end net cash position of £148.4m (2006: £111.2m). Further special pension contributions of £11.0m were made to the Kier Group Pension Scheme in the year (2006: £31.5m). In addition we acquired the shares in Hugh Bourn Developments (Wragby) Limited for £46.8m of which £24.0m was paid in the year.

The Construction division generated £62.5m of cash in the year (after tax and dividends) reflecting a strong underlying trading performance and increased volumes of revenue. The division ended the year with a record cash balance (including intra-Group loans) of £361.2m (2006: £298.7m).

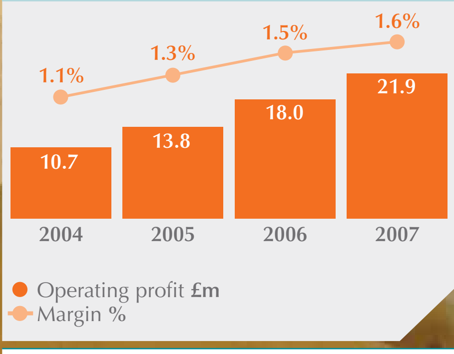
Group structure and strategic developments

Kier Group comprises five divisions; Construction, Support Services, Homes, Property Development and Infrastructure Investment (investment under the PFI). The Group's management structure and segmental analysis for reporting purposes are based on the five divisions.

The Group has a well established business model that has underpinned its growth and development over a number of years. Whilst our origins are in construction activities, by undertaking strategic investments in housing, property development, support services and PFI we have developed a business model comprising complementary activities. They provide a balanced cash profile enabling the funds generated by lower margin construction operations to be invested in higher margin, asset-rich businesses such as housing, property development and PFI, while operationally we are able to combine complementary skills to offer fully integrated services to clients throughout the UK. In 2007 we have again seen many examples of mixed-use projects on which our businesses have worked together to provide a total in-house solution for the delivery of these developments. We are one of the few Groups able to do this and we intend to continue to use our skills to generate further profit growth from these opportunities.

As part of our strategy to grow our Homes division we acquired the shares in Hugh Bourn Developments (Wragby) Limited in July 2006. This business has provided the fifth operating area for our Homes division, extending our operations north of Allison Homes' area of Lincolnshire and North Cambridgeshire.

Construction



Tesco, Shrewsbury

Built by Kier North West, the new Tesco Extra at Shrewsbury is the first Tesco store built in England with a full suite of environmental initiatives. These elements include a timber frame, timber roof purlins, timber framed north lights, photovoltaic cells to generate electricity, geothermal heating and cooling system, CO_2 refrigeration to reduce emissions, rainwater harvesting and eco-friendly paint. The project was supported by Kier Plant and the framework team of Kier Retail.

£1,710m

Record Construction order book at 30 June 2007 (2006: £1,470m)

The Gordano School project, near Portishead, was a complex redevelopment of an existing school campus undertaken by Kier Western and involved a number of new buildings and the refurbishment of existing facilities to provide a comprehensive, modern school campus which includes integrated IT facilities throughout. This was completed for North Somerset Council in November 2006.

Business review, markets and outlook

Construction

The Construction segment comprises Kier Regional and Kier Construction. Kier Regional encompasses our ten regional contracting businesses, our affordable housing business and major building projects. Kier Construction comprises the Group's infrastructure and overseas operations with civil engineering, infrastructure, rail, mining and remediation capability.

Overall revenue increased by 15.9% to a record £1,411.2m for the year (2006: £1,218.1m) with good growth in both Kier Regional and Kier Construction. Operating profit increased by 21.7% to £21.9m (2006: £18.0m) and the operating margin increased to 1.6% from 1.5% last year.

Cash generation, one of our key performance measures, has been extremely strong again this year with cash balances at 30 June 2007 £62.5m higher than the previous year-end (after tax and dividends) and average balances for the year £49m ahead. Contract awards were higher than last year providing a record order book of £1,710m at 30 June 2007 (2006: £1,470m).

Kier Regional business review

The performance in the Kier Regional businesses was outstanding this year with excellent progress made in the key performance measures of revenue, profit margins and cash. Revenue, at £1,209.9m, was 10.7% ahead of 2006; margins have again increased and the cash performance remains strong with average cash balances, including intra-Group loans, around £42m higher than last year, ending the year at a record £336m (2006: £278m).

Contract awards were ahead of last year with 55% arising from private sector clients (2006: 57%) and 45% from the public sector (2006: 43%). Negotiated, partnered and two-stage tenders represented around 64% of work secured (2006: 65%) reflecting the strength of our long-term relationships with clients, our regional framework agreements and our commitment to long-term partnering. This, coupled with the relatively low value of contracts undertaken within the business, averaging £4.7m, (2006: £3.2m) continues to provide a lower-risk, and more sustainable, order book.

Demand for commercial property has been strong in the year representing 23% of our awards including a £66m office scheme in Snow Hill Birmingham by Kier Build, our major projects business, and a £36m office block, The Pinnacle, in the centre of Milton Keynes by a joint team comprising the Kier Regional businesses of Marriott Construction and Kier Build. The retail market continues to be buoyant in most regions, representing around 10% of awards secured during the year. A number of contracts have been awarded for Morrison, John Lewis Partnership & Waitrose, Sainsbury and Tesco including a 'Tesco Extra' environmental concept store at Shrewsbury incorporating geothermal heating and cooling, rainwater harvesting and a host of other sustainable features.

Public sector demand has also been strong, particularly in the education sector which represented 22% of our awards for the year. New schools work has been secured by a number of our businesses either conventionally or through frameworks, most notably for the South East Centre of Excellence (SECE), and a primary schools framework in which Kier was selected as one of three partner contractors for South Lanarkshire Council. Colleges and universities also provided a strong work stream nationwide. We were delighted to have been selected as one of six preferred contractors on the 'Contractors' Framework for Academies and other Educational Facilities' which is forecast to provide £1.7bn of work, in total for the six contractors over the next four years. Our framework agreement with the Home Office for custodial work on prisons is affording us good opportunities providing 8% of awards in the year with a significant level of further contracts in negotiation. The affordable housing sector is also buoyant presenting good prospects through our framework agreements with housing associations and local authorities. The division completed 850 affordable housing units this year including the 161 unit Burford Wharf scheme for Dominion Housing and was awarded around £98m of new contracts in the year.

South Hook Liquefied Natural Gas (LNG) terminal at Milford Haven is a joint venture project being undertaken by Kier Construction with Brussels-based Besix. The three-year contract involves rejuvenating the former oil jetty into an LNG receiving terminal. Kier Engineering Services is also involved in several aspects of the project.

Operating and financial review
Chief executive's review
continued

The state-of-the-art Half Way Tree Transportation Centre in Kingston, Jamaica, housing a bus station over two levels to serve 200,000 commuters, is being constructed by a joint venture of Besix and Kier Construction.

We have seen an increase in the number of opportunities for two or more of our businesses to combine their skills, resources and geographical experience in order to deliver appropriate services to customers. The recently awarded project to deliver the new £35m UK Supreme Court for the Ministry of Justice in Parliament Square, London is a prime example of this where the skills of Wallis, our specialist refurbishment contractor, combined with Kier Property to secure the project. Marriot Construction is working with Kier Property to deliver a new UK headquarters for EDS in Milton Keynes and Kier South East has joined with Bellwinch to develop 281 flats in Maidstone. In addition Kier Plant provides tower cranes and site accommodation to a large number of our sites and Kier Building Service Engineers, providing mechanical and electrical design services, is often an integral part of our construction teams.

Kier Construction business review

Kier Construction saw a 61.0% increase in its revenue in the year to £201.3m (2006: £125.3m) through a combination of growth in UK framework contracts, traditional UK civil engineering contracts and overseas work. In UK civil engineering, a good performance was achieved in our five-year rail infrastructure framework for railway structures renewal in East Anglia for Network Rail. In the water sector, the five-year joint venture integrated alliance under the Asset Management Programme 4 for United Utilities is developing well.

At Milford Haven, where we are carrying out offshore works for the South Hook LNG terminal, we are making excellent progress despite poor weather conditions and remain on target to meet the client's planned date of commissioning by May 2008.

Our remediation capability, where brownfield sites are redeveloped for commercial, residential or mixed-use, continues to grow. In Peterborough work has now completed on a former Anglian Water site for our Homes business and in Uxbridge, Kier Construction has successfully remediated a British Gas site for Kier Property ahead of development of a mixed-use scheme. Both of these projects were completed on time and, more importantly, within budget giving us a firm foundation of experience to pursue similar opportunities.

At our private open cast coal mine, Greenburn in East Ayrshire, we have now extracted 2.0m tonnes of coal since production began in April 2004. We expect production to continue into 2012 and have forward sold 38% of the remaining 2.0m tonnes of anticipated coal at favourable prices.

Overseas good progress made in the Caribbean on Jamaica's Norman Manley International Airport and on a large transportation centre in Kingston, Jamaica was overshadowed by a challenging project in Antigua comprising a large five-star hotel complex for Sandals. The hotel has now opened on a phased basis and the projected financial outturn of the contract has been provided for in full in the results for the year to 30 June 2007.

Construction markets and outlook

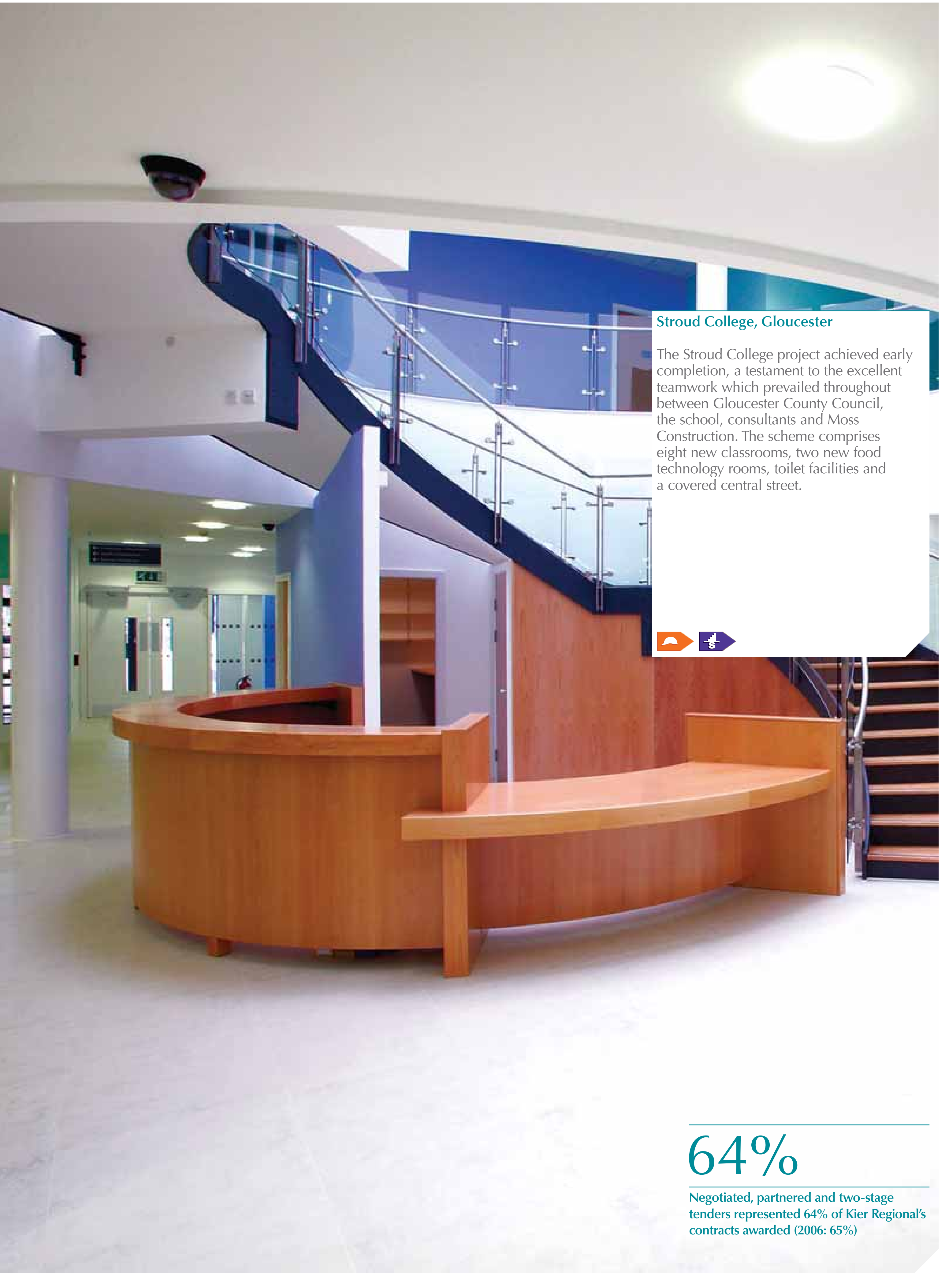
The UK construction market remains buoyant in both the public and private sectors. In the public sector healthcare spending slowed during the year but is again strengthening and the outlook for education and custodial projects is positive. As the education and custodial sectors operate procurement framework arrangements of which we are a part we are well placed to attract further work. Affordable homes and the social housing sector remain strong and we welcome the recent Government Green Paper on housing. This indicates provision of £8bn of public money for the affordable housing programme between 2008 and 2011 and a target of at least 70,000 new affordable homes each year by 2010/11 of which 45,000 would be for social rented accommodation. This represents a 50% increase in the supply of new social homes in the three years. These planned increases will provide good opportunities for our Construction businesses and in particular Kier Partnership Homes which has recently achieved 'partner status' with the Housing Corporation allowing us to bid directly for social housing grant funding.

We have a good track record in civil engineering work for power stations and recent awards at Immingham and Langage confirm our strong reputation in the energy markets which, we believe, will continue to expand and include opportunities in the waste to energy sectors.

Overseas, our relationships with clients and joint venture partners are providing us with good opportunities, particularly in Romania, where we have negotiated contracts for a shopping mall and residential apartments. In the Middle East, we are building on our experience of phosphate mining in Jordan and are in negotiation on a contract to mine phosphate in Saudi Arabia in joint venture with a local partner.

The UK construction markets are probably the best that we have ever experienced, providing us with record order books at 30 June 2007 of £1,710m (2006: £1,470m) supported by a significant pipeline of contracts in the final stages of negotiation. With these strong, good quality order books, the scene is set to deliver further growth in our Construction division over the next few years.

Part of the £80m bauxite mine development for Jamalco, being undertaken in Jamaica by Kier Construction, this aerial conveyor was built over a 3.4km stretch to overcome mountainous terrain. Kier Engineering Services was involved in the design of structural and temporary works.



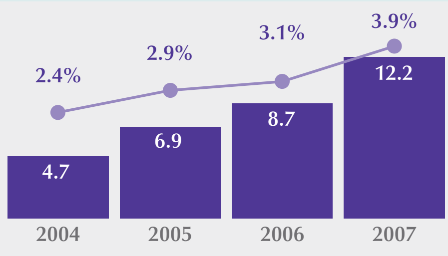
Stroud College, Gloucester

The Stroud College project achieved early completion, a testament to the excellent teamwork which prevailed throughout between Gloucester County Council, the school, consultants and Moss Construction. The scheme comprises eight new classrooms, two new food technology rooms, toilet facilities and a covered central street.

64%

Negotiated, partnered and two-stage tenders represented 64% of Kier Regional's contracts awarded (2006: 65%)

Support Services



Before amortisation of intangible assets

Kier Support Services

Kier Support Services, through its four business streams, is active throughout the UK. Within London, Kier Building Maintenance has recently been awarded new public sector contracts in Harlow, Harrow and Hackney.

£1,788m

Record Support Services order book at 30 June 2007 (2006: £1,396m)

Kier Street Services, part of Kier Building Maintenance, has invested in a new wheelie bin collection system to boost waste recycling in Corby and to dramatically increase the proportion of recyclable materials collected from the borough's 24,000 properties.

Rt Hon. David Milliband MP, Secretary of State for the Environment, visited Kier Street Services in Corby and took time to meet with Kier staff to see recycling services provided to residents.

Support Services

Support Services comprises four business streams: Kier Building Maintenance, providing reactive and planned maintenance principally to local authority clients, housing associations and Arms Length Management Organisations; Kier Managed Services, providing facilities management services to public and private sector clients; Kier Building Services Engineers, our specialist mechanical and electrical design, installation and maintenance business; and Kier Plant which hires plant to Kier Group companies and external clients.

Support Services business review

Revenue in the Support Services segment rose 12.2% to £315.5m (2006: £281.3m) driven by a combination of organic growth and the inclusion of a number of new, large building maintenance contracts awarded in the year. Operating profit, before deducting the amortisation of intangibles of £2.0m and minority interests of £0.8m (2006: £1.9m and £nil), increased by 40.2% to £12.2m (2006: £8.7m) at an improved margin of 3.9% (2006: 3.1%) exceeding our original target set for this year. The cash position within the division remains strong with £3.3m generated in the year to give a closing balance of £15.8m (2006: £12.5m). Once again we have seen significant growth in the order books which stand at £1,788m at 30 June 2007 (2006: £1,396m), including Building Maintenance at £1,211m (2006: £844m), Managed Services at £528m (2006: £537m) and Kier Building Services Engineers at £49m (2006: £15m).

In Building Maintenance, the largest division with revenues of £228.3m (2006: £172.5m), we have enjoyed unprecedented success over the last year. We now look after 200,000 public sector homes throughout the country, having secured £525m of new contracts in the year including Hull, Sefton (Liverpool), Harlow, Harrow, Hackney and Brighton. Kier Sheffield LLP, our partnership with Sheffield City Council, provided the largest volume of revenue for the year at £107.1m (2006: £94.2m) and includes Sharrow Industries, a sheltered workshop run by Kier Sheffield LLP which manufactures and supplies kitchens, windows and doors under an exclusivity agreement with the five contractors under the Decent Homes initiative. Sheffield City Council's share of profits from the LLP for the year was £0.8m and has been disclosed as a minority interest in the income statement. A good performance was achieved in Kier Islington on increased volumes of £46.6m (2006: £37.6m) and we were proud to have been involved in Islington Council's UK Housing Award for preventing homelessness through the Home Shelter Scheme.

During what has been predominantly a year of consolidation, Kier Managed Services continued to secure a good mix of both public and private sector contracts largely through renewals. There was significant activity in the PFI arena, of which a good share of contracts emanated from Kier Project Investment for whom Kier Managed Services manages a portfolio of healthcare projects, libraries and schools.

The past year has seen a record £11.0m of investment by Kier Plant in new equipment including tower cranes, generators, telehandlers and site accommodation. This brings us to a fleet of 95 tower cranes and 3,400 accommodation units on hire to both Kier companies and external clients.

Support Services markets and outlook

Opportunities in the facilities management market continue to emerge for Kier Managed Services in both the public and private sectors and our strategy of being selective on what we pursue is reaping rewards.

In Building Maintenance both local authority expenditure, through housing repairs and maintenance budgets, and central government expenditure, through the Decent Homes initiative, continue to provide good potential for new work. A number of new contracts were awarded to us in the year with combined annual revenues of around £100m. These, like Sheffield, are likely to grow as our partnerships flourish to embrace other areas of Kier expertise, including street cleaning, street scene works and grounds maintenance. A strong pipeline of other good opportunities continues to be explored and we are preferred bidder on Hammersmith & Fulham (approximately £5m per annum) and Hackney (approximately £4m per annum) and short-listed as one of two bidders on Stoke (approximately £35m per annum).

We have a strong track record of delivery on the high value Building Maintenance contracts which places us in a good position to secure further work.

Kier Plant has been investing in the latest cranes, plant, machinery and transport, having placed an order for ten top-slewing saddle jib cranes to replace older stock, 15 new telehandlers and two Volvo FM crane trucks amongst other equipment.

Operating and financial review
Chief executive's review
continued

One of four prestigious Daily Telegraph/What House? awards presented to Dan Browne of Twigden Homes

Homes

Kier Residential, our housebuilding division, comprises five companies: Allison Homes operating throughout Lincolnshire and north Cambridgeshire; Bellwinch Homes with sites in the south and south-east; Kier Homes, operating across the central belt of Scotland; Twigden Homes with activities in East Anglia and the Midlands; and the recently acquired Hugh Bourn Homes, operating as Kier Homes Northern, in north Lincolnshire.

Homes business review

Kier Residential sold 1,767 homes in the year (2006: 1,522) representing a 16.1% increase in unit sales over last year. Average selling prices were marginally lower than last year at £179,300 (2006: £180,100) reflecting the inclusion of 162, slightly lower value, units from Kier Homes Northern which was acquired in July 2006. Revenue of £316.8m was generated from housing sales (2006: £274.2m) and land disposals generated a further £8.3m of revenue (2006: £3.7m) at a nominal profit of £0.2m (2006: £0.1m). The proportion of social housing sales remained constant at 16% (2006: 16%). Operating profit from housing sales increased by 14.7% to £47.6m (2006: £41.5m) at a margin of 15.0% (2006: 15.1%).

On 31 July 2006 we acquired the shares in Hugh Bourn Developments (Wragby) Limited for a total consideration of £46.8m representing the market value of land, work in progress and fixed assets after taking into account liabilities and adjustments. £24.0m was paid during the year and £12.9m on 2 July 2007 with the balance due on 1 July 2008. Hugh Bourn (rebranded Kier Homes Northern) has formed the foundation for a fifth trading division of Kier Residential.

As well as the corporate acquisition, Kier Residential had a busy year in 2007. A number of new developments started including our first carbon neutral development of 281 flats in Maidstone with Kier South East, the previous occupier of the site, as contractor. At Sunbury, Kier Residential is developing 96 homes, 48 of which are for a housing association, on a site previously owned by Kier Property. In Scotland a development of 489 units at Belvidere Village in the east end of Glasgow was launched in November 2006 with the first completions being taken in the year to June 2007. A number of large sites were purchased during the year including 192 units at Costessey, Norfolk, 245 units at Redding Park in the central belt of Scotland, 213 units at Little Paxton, Cambridgeshire and 225 units at Turnford College, Hertfordshire. In addition detailed planning consent was granted for 330 units at Stoke Mandeville, Buckinghamshire and the first phase of 550 units at Fengate, Peterborough.

During the year £87.5m was spent on selective land purchases, including a significant amount on deferred terms, and at 30 June 2007 the land bank contained 6,465 units (2006: 5,863 units) which, at 3.7 years' worth of current years sales, is marginally less than our target holding of four years' unit sales. We are planning further investment in land in our current areas of operation and continue to look for opportunities to expand the business.

In addition to land with planning consent we hold approximately 11,500 plots of strategic land mostly under option which continue to provide a valuable route for land acquisition as, historically, between 16% and 18% of our annual unit sales have originated from this process.

Housing markets and outlook

The typically quiet selling period over the summer started earlier than in previous years in our areas of operation but also ended earlier with reservations in the last three weeks of August ahead of the same period last year. The order book at 31 August, comprising reserved and exchanged units, is 11% ahead of last year by value and 5% ahead by number of units reflecting the high level of social housing units included in last year's order book.

We will be trading from broadly the same number of outlets this year as last but are anticipating a notable increase in the number of unit sales from three of our businesses; Kier Homes Northern, our newest business, is gearing up its operations in line with the rest of the division; Kier Homes in Scotland and Bellwinch, our south-east business, are both benefiting from a number of major new developments this year which are currently trading very well. Around 40% of our projected unit sales for the full year are already secure by way of completions, exchanged contracts and reservations and, similar to the pattern of sales in 2007, we expect the balance of units to be skewed to the second half of the year.

The outlook for regeneration and brownfield opportunities is excellent and a number of developments are expected to come forward including two in joint venture with Kier Property: a major project in Ashford New Town and the Ordnance Survey site in Southampton, together providing over 1,000 units. We also welcome the recent Green Paper on housing which should benefit our business over the next few years.

Housing completions

2003	990
2004	1,158
2005	1,215
2006	1,522
2007	1,767

Kier companies were awarded a record nine NHBC Pride in the Job Quality Awards, with Allison Homes picking up three of them.

1

2

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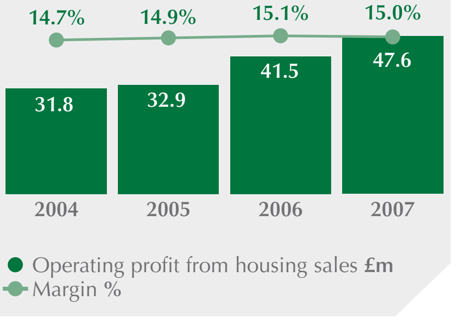
4

5

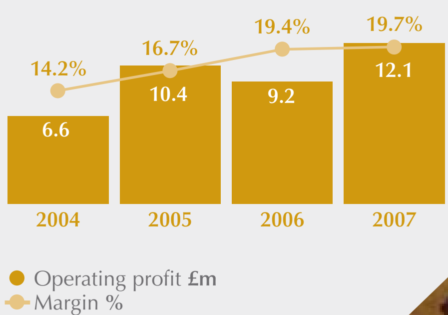
6

1. Kier Homes: Bathgate development.
2. Allison Homes: The Oaklands, South Wootton.
3. Kier Homes Northern: Holtons at Hunters Chase, Tattershall.
4. Twigden Homes: Elliott Mews development at Tempsford.
5. Bellwinch Homes: Concordia development, Bath.
6. Carbon neutral: the Blue Quarter riverside apartments in Maidstone, being undertaken by Bellwinch, will become Kent's first complete new-build housing project to be officially approved as carbon neutral. Kier Residential registered with the Carbon Neutral Company in 2006.

Homes

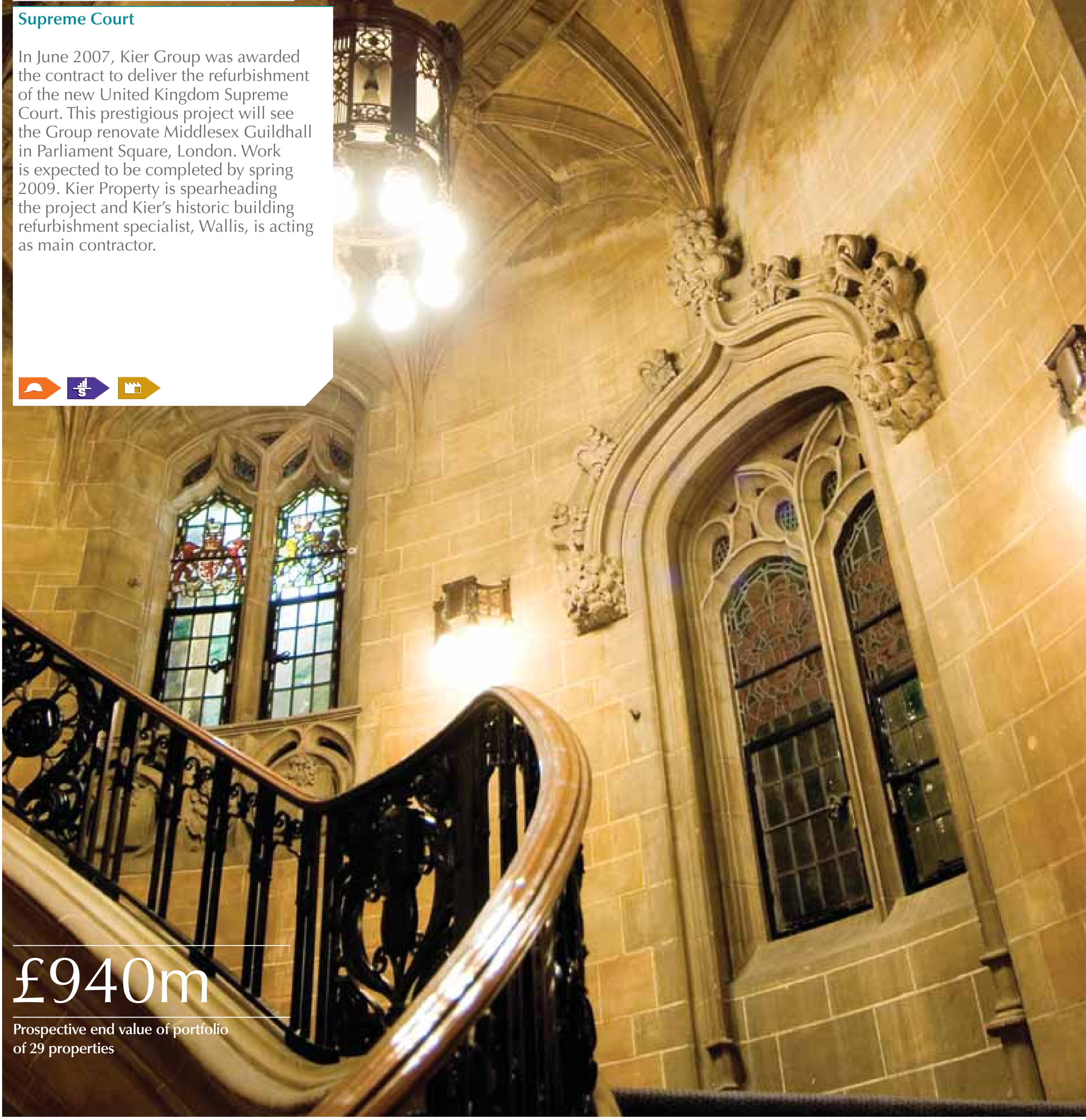


Property



Supreme Court

In June 2007, Kier Group was awarded the contract to deliver the refurbishment of the new United Kingdom Supreme Court. This prestigious project will see the Group renovate Middlesex Guildhall in Parliament Square, London. Work is expected to be completed by spring 2009. Kier Property is spearheading the project and Kier's historic building refurbishment specialist, Wallis, is acting as main contractor.



£940m

Prospective end value of portfolio of 29 properties

Operating and financial review
Chief executive's review
continued

Kier Property has been selected to deliver the development of the 4.5-acre riverside site, GQ2, in Gateshead, for retail, offices, hotel, leisure and residential use.

Property

Our Property development activity covers commercial, offices, industrial, retail and mixed-use sectors largely on a low-risk basis. It operates through Kier Ventures, a wholly owned subsidiary, and Kier Developments, a 50% joint venture with the Bank of Scotland.

Kier Property enjoyed another highly successful year, significantly enhancing its portfolio through acquisitions as well as crystallising considerable value on several existing properties. The portfolio now totals 29 properties representing over 5m sq ft of development with a prospective end value of over £930m.

The active management of its properties led to a 29.1% increase in revenue to £61.3m in the year (2006: £47.5m), with operating profit up from £9.2m to £12.1m representing a margin of 19.7% (2006: 19.4%).

A number of developments were sold during the year including two to Invista Real Estate: the 80,000sq ft Mannington Retail Park development in Swindon; and the 216,000sq ft first phase of Reading Central, a commercial site in the centre of Reading. We have retained a 50% equity stake in Mannington Retail Park and have created an innovative joint venture with Invista Real Estate to bring forward both of these major developments with Kier taking on the development management role. At Mannington we will develop 45,000sq ft of new retail units and re-clad an existing terrace of four units. At Reading, a revised planning application has been submitted and work is expected to begin on site by the end of 2007 with discussions under way amongst a number of potential occupiers. Since the financial year-end, Kier and Invista have added a third development to the joint venture, purchasing the 23-acre Ponders End industrial estate in Enfield. This will be converted into a 500,000sq ft regeneration project, comprising a mix of uses including hotel, self-storage, car showroom, industrial and offices.

The year saw Kier Property, through our integrated developer/contractor approach with other Group companies, selected as development partner for a number of projects including the new United Kingdom Supreme Court, in Parliament Square, London. The £35m project comprises a 70,000sq ft renovation of the Grade II* listed Middlesex Guildhall by Wallis, our specialist refurbishment contractor, which will be let to the Ministry of Justice on a 30-year lease on practical completion in the spring of 2009. We also finalised our agreement to deliver a new 150,000sq ft head office for Ordnance Survey at Adanac Park in Southampton. Through our Construction, Support Services and Homes divisions, we will redevelop Ordnance Survey's existing office in the area into a 24-acre site embracing residential, commercial, office and industrial uses.

Regeneration is at the forefront of Kier Property's approach to development. As well as the Southampton and Ponders End projects we made progress on a number of key regeneration projects during the year:

- In October 2006, we were selected to deliver a major mixed-use sustainable development of a 4.5-acre town centre site in Newcastle called GQ2. The scheme will include a blend of residential, leisure, retail, hotel and office uses.
- Kier Property is also set to deliver a £35m regeneration of a former gas works in Uxbridge, following a comprehensive remediation of the site during the year by Kier Construction.
- The redevelopment of the former Shippams food factory in Chichester was also completed in the year, with New Look and Hennes taking occupation of the 50,000sq ft of retail space.
- Work has now completed on a new 175,000sq ft replacement produce and flower hall for the Western International Market, near Heathrow which will allow us to bring forward a 300,000sq ft distribution scheme on the site of the old market.

Kier Property's industrial division continued its success. This included delivering 145,000sq ft of development in Weybridge, Surrey which was almost entirely pre-let or pre-sold, under the Trade City brand. Trade City has now developed almost 1m sq ft of bespoke industrial units for local and national occupiers. At Warth Park in Northamptonshire work has started on a 250,000sq ft warehouse which, on completion, will be sold to Tesco Pension Fund.

Property markets and outlook

Looking ahead, the relationship with Invista is likely to be further augmented with the addition of a second 125,000sq ft phase of Reading Central. Several sites within Kier Property's existing portfolio will be brought forward to maximise value for the company including the recently acquired Breakspear House, a former Royal Mail building in Hemel Hempstead. This will be redeveloped for industrial, office and hotel uses complementing our nearby Trade City Hemel site, which is nearing completion.

We are hopeful of achieving planning consent, in the near future, on a number of large regeneration schemes in which we are involved including Poole and Ashford New Town which will use the multi-disciplined services within Kier Group.

Occupational demand continues to be strong but we anticipate a correction in pricing in the property investment market which we believe will lead to further opportunities for strategic acquisitions of sites and businesses where we are able to add value through the development process and asset management.

Wavendon Park in Milton Keynes is being developed by Kier Property to deliver four new, two-storey office buildings totalling 13,800sq m to EDS as a new headquarters campus. The project is being phased to allow EDS to remain on site while the old buildings are demolished and the new ones built. Marriott Construction is undertaking the building works.

Chair of the Kent Police Authority, Ann Barnes and Chief Constable Michael Fuller visiting the 30-year PFI North Kent police station, which includes Kier Project Investment funding and is being constructed by Kier South East.

Infrastructure Investment

Kier Project Investment (KPI) manages the Group's PFI interests. The core strength of KPI is its ability to bring together the diverse range of skills and resources within the Group and combine these with a financial package to deliver high quality buildings and services to meet the needs of the public sector. Having been involved with, and committed to, PFI projects since 1996, KPI is able to demonstrate continuity of involvement from early design and concept stage, through construction, to facilities management and whole-life sustainability solutions.

Infrastructure Investment business review

In July 2006 financial close was achieved on the new Kent Police Constabulary, a ground-breaking project incorporating several aspects of sustainability in its design including ground source heating. This brought our portfolio of PFI projects to 13 and our committed equity investment in PFI to £22.8m, of which £15.5m has been invested to date.

Good progress is being made on the projects under construction including The Garrett Anderson Centre at Ipswich Hospital, a clinical services treatment centre. The project is on schedule to be completed at the end of 2007, with the £27m construction project being undertaken by a collaboration of two Kier Regional businesses. Similarly, the six Norwich schools scheme for Norfolk County Council has progressed well with the first phase of Taverham Secondary School in Norwich, a conversion project comprising part new build and part refurbishment, now handed over. The period also saw construction completed at the Meadowhead and Westfield schools in Sheffield.

Infrastructure Investment markets and outlook

Although our traditional markets of education and health have slowed, by offering a one-stop package including investment, construction, facilities management and ongoing building management services we are able to provide the successful delivery of built environment requirements for communities throughout the UK. This will now include new markets for us, such as fire stations, prisons and waste projects, all areas in which our Construction division has skills and expertise.

Our portfolio of projects, held at cost in the balance sheet, will continue to provide additional value through refinancing and possible disposal opportunities in the future. The directors' valuation of the committed investment in our portfolio at 30 June 2007 was approximately £49m based on discounting the cash flow from investments in financially closed projects at 7%.

The Garrett Anderson Centre is the biggest development at Ipswich Hospital for 30 years. The PFI project, which includes Kier Project Investment funding, is being constructed by Kier Eastern in collaboration with Kier London. Pictured left are the Kier and NHS teams celebrating the topping out ceremony.

Sheffield Schools PFI

Kier Project Investment is an equity holder in the Sheffield Schools PFI scheme, part of Sheffield City Council's vision for raising educational standards throughout the city. The project comprised the construction of two new primary schools, Grenoside and Hinde House, and two secondary schools, Westfield and Meadowhead. The schools were built by Kier Regional, with Kier Build responsible for the secondary schools and Kier Northern the primary schools. Full facilities management, including lifecycle replacement, leisure management and catering services, is being provided by Kier Managed Services for the duration of the 25-year concession period.

£22.8m

Committed investment in the PFI portfolio

Kier Group director of safety, health & environment, John Morgan (centre) presents certificates and a Kier Group safety flag to representatives of Allison Homes who clocked up an impressive 2.5m man-hours without a lost-time accident.

Built by Kier Southern, HMP High Down in Sutton is a project which is part of Kier Custodial's strategic alliance for the Ministry of Justice Custodial Properties, delivering a series of prisons in England. Some 17 projects are active with more under negotiation. HMP High Down features extensive off-site prefabrication methods of construction, underfloor heating and the use of geothermal heating and cooling systems. Several phased completions and hand-overs were undertaken in 2007.

Marriott Construction and Kier Build have joined forces to build developer Hampton Brook's latest venture, The Pinnacle. The design and build contract, worth £36m, will deliver Milton Keynes' biggest office development in 25 years and has a projected completion date of spring 2009.

Health & Safety

Kier Group's management strategy of Safety, Health & Environmental issues continues to be a significant area of focus for all members of our management teams and employees.

The past year has seen a clear focus on people issues, raising awareness within the workforce and supply chain of the areas that cause injury and ill health. One of the biggest challenges to our industry is tackling the professional risk takers by re-educating them to work safely. Part of Kier's programme, linked to the 'Don't Walk By' message, involves addressing behavioural issues through a process under development by our in-house occupational psychologist planned to further enhance the safe working environment which we require on all of our projects.

Kier Group is an active member of the Major Contractors Group (MCG) and continues to support and deliver the MCG Health & Safety Strategy for both safety issues and occupational health improvements. The positive proactive vigilance and professionalism of our site teams has ensured that we maintain and develop a positive safety culture. Our Accident Incident Rate in 2007 was 640 per 100,000 staff and subcontractors measured against a Health & Safety Executive benchmark of 946.

In recognition of the overall efforts made by Kier staff, employees and supply chain in maintaining safety vigilance we were awarded the Quality in Construction Award for Safety Management for the second successive year and Kier Group companies received 11 RoSPA Gold Medals, 9 RoSPA Gold, 1 RoSPA Silver and 16 British Safety Council awards.

People

The talent, commitment and enthusiasm of our people provide the winning combination behind the Group's unbroken record of growth. Whatever the scope of project we undertake, its location or its complexity, it will involve Kier people exercising individuality, flair and a commitment to achieving success. The extent of awards won, commendations received and personal achievements throughout the year demonstrate our strong commitment to high quality service delivery. I am proud of our Group and what we can achieve and I would like to take this opportunity to thank all of our people for their ongoing contribution to our record-breaking achievements and for upholding our core values.

Objectives and prospects

The Group is in great shape. Our Construction order books are at record levels and our Construction businesses are experiencing very strong markets allowing us to be highly selective in the work we undertake. Our Support Services business has reached new heights in terms of volume and profits and with the new awards in 2007 and potential awards for 2008 we can expect increased growth in the current financial year. In Homes the market continues to be sound and having established a new operating region during the year we continue to look for further opportunities to expand the business. Our Property division has a good portfolio of developments in the pipeline and is seeking to grow further through strategic acquisitions; and in PFI value will continue to be created from new and existing investments.

With its strong markets, a sound business infrastructure and talented management teams I have enormous confidence in the future prospects for Kier.

John Dodds
Chief Executive

Millennium Madejski Hotel, Madejski Stadium, Reading

A six-storey extension to this five-star hotel, undertaken by Moss Construction, has created a striking entrance to the hotel that is further enhanced by the high ceiling to the new reception area with its dramatic Murano glass chandeliers. The hotel capacity has increased from 140 bedrooms to 201 in a modern contemporary style.

Operating and financial review
Financial review

Deena Mattar
Finance Director

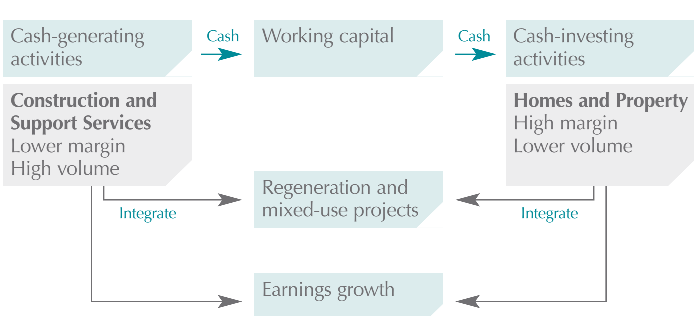
Cash generated from operating activities

£114.8m

Full-year dividend rebased by 92.3%

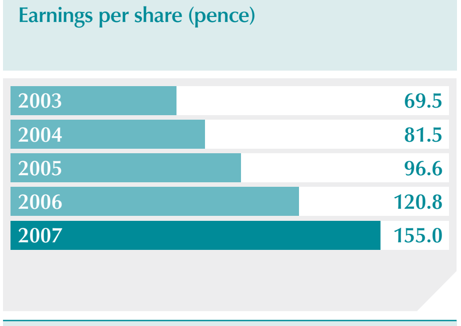
50.0p

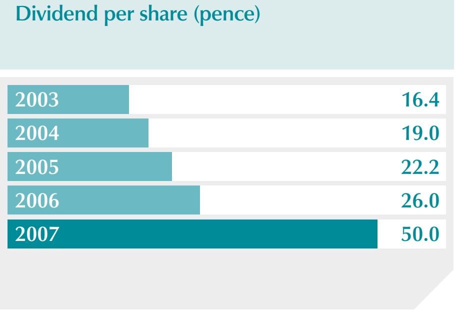
Kier integrated business model



Financially – cash generated from Construction and Support Services activities provides investment for Homes and Property operations.

Operationally – skills can be combined from various divisions to provide a totally integrated solution to clients' increasingly complex requirements.





Figures for the years 2005 to 2007 are stated under IFRS and those for 2003 and 2004 are stated under UK GAAP.

Accounting policies
The Group's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. There have been no changes in accounting policies during the year.

Acquisitions
On 31 July 2006 we acquired the shares in Hugh Bourn Developments (Wragby) Limited for a total adjusted consideration of £46.8m, after allowing for liabilities and the discount for deferred payments. £24.0m was paid during the year, £12.9m was paid on 2 July 2007 and the balance is due on 1 July 2008. The consideration represented the market value of land, work in progress and other assets and liabilities including 1,197 residential plots benefiting from a combination of outline and detailed planning consent. The business changed its name to Kier Homes Northern during the period and completed 162 housing sales.

Profit before tax
Profit before tax increased by 31.3% to £77.6m (2006: £59.1m). This is stated after deducting joint venture tax of £1.4m (2006: £1.4m) and before minority interests of £0.8m (2006: £nil). The share of minority interests relates to our building maintenance outsourcing contract at Sheffield which is carried out through Kier Sheffield LLP in partnership with Sheffield City Council and represents their share of profits for the year.

Taxation
The Group's effective tax rate, including joint venture tax on joint venture profits, is in line with last year at 29.0% reflecting tax benefits relating to contaminated land remediation and the effect of the corporation tax rate change on deferred tax offset by permanent differences.

Interest and cash
The interest charge for the year comprises the following:

	Year to 30 June	
	2007 £m	2006 £m
Group interest receivable	**6.9**	5.3
Interest payable	**(2.6)**	(2.8)
Unwinding of discount	**(4.6)**	(2.6)
Share of joint venture interest	**(2.9)**	(2.6)
	(3.2)	(2.7)

The Group interest receivable includes that arising from average treasury balances of £65m for the year. The charge of £4.6m relating to unwinding of discounts includes £3.9m relating to land creditor balances payable over a number of years (2006: £2.0m).

Net cash at 30 June 2007 was £148.4m (2006: £111.2m) after deducting £30.2m relating to loan notes. £114.8m was generated from operations during the year after deducting £11.0m (2006: £31.5m) in respect of special pension contributions made during the year.

Cash, net of debt, at 30 June 2007 includes £44.3m (2006: £37.6m) of cash which is not generally available for Group purposes, including that held by joint arrangements, overseas and by the Group's captive insurance company. The liquid cash position is affected by seasonal, monthly and contract-specific cycles. In order to accommodate these flows the Group maintains a range of bank facilities of £120.0m comprising £12.5m of overdraft facilities and £107.5m of committed, revolving credit facilities all on an unsecured basis. £15.0m of this expires in January 2008 and £92.5m expires in January 2011.

Treasury policy and risk management
The Group has a centralised treasury function which manages funding, liquidity and financial risks. The Group's policy is to use the cash generated by the Construction business to invest in the asset based Homes and Property businesses. This financial model is supplemented with bank facilities amounting to £120m and long-term debt of £30m.

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

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

Balance sheet and total equity

The balance sheet at 30 June 2007 includes intangible assets of £8.4m of which £7.7m relates to the outsourcing contract at Sheffield which is being amortised over ten years, being the life of the contract, with £1.9m (2006: £1.9m) charged to profits in the year; and £0.7m relates to Harlow, which was acquired during the year, after charging £0.1m to profit.

Total equity has increased during the year to £183.0m (2006: £108.5m) as follows:

	£m
Total equity at 1 July 2006	108.5
Profit for the year	56.3
Dividends paid	(9.8)
Issue of shares	7.0
Purchase of shares	(8.7)
Share-based payments	6.6
Cash flow hedge*	9.4
Net improvement in the pension deficit	14.1
Translation differences	(0.4)
Total equity at 30 June 2007	**183.0**

*This movement is driven by the increase in bond yields in the period 30 June 2006 to 30 June 2007.

Pensions

The Group participates in two principal schemes, the Kier Group Pension Scheme, which includes a defined benefit section, and a defined benefit scheme on behalf of its employees in Kier Sheffield LLP. The financial statements reflect the pension scheme deficits and surpluses calculated in accordance with IAS 19. At 30 June 2007 the net deficit under the Kier Group Pension Scheme was £21.9m (2006: £46.9m). The market value of the scheme's assets was £506.7m (2006: £467.0m) and the net present value of the liabilities was £537.3m (2006: £534.0m). The increase in liabilities represents an increase in the life expectancy of members by one year offset by the effect of an improvement in bond yields.

We have been addressing the issue of pensions over a period of several years and in the last three years have contributed £54.5m in special contributions including £11.0m during the year to 30 June 2007 (2006: £31.5m). The special contributions have no effect on the income statement for the year, but are shown as a reduction in cash and a reduction in the pension deficit.

Under the scheme relating to Kier Sheffield LLP there was a net surplus of £4.8m at 30 June 2006. This is being carried at £4.9m this year, based on the present value of the economic benefit available in the form of reductions in future contributions to the plan and will be amortised over the remaining life of the contract.

Pension charges of £11.7m (2006: £16.9m) have been made to the income statement in accordance with IAS 19.

Deena Mattar
Finance Director

Greenburn open cast mine development in East Ayrshire, where Kier Construction has mined 2.0m tonnes of coal. Production is expected to continue into 2012, with 2.0m tonnes of deposit left.

Wallis recently completed the refurbishment of the Grade II listed Church House, the popular conference and function venue next to Westminster Abbey in London.

Core to our continued success is our ability to identify and effectively manage the risks to our business. Accordingly the Group has well defined, rigorous policies and processes designed to identify, mitigate and control risk. Risks are specific to each of our businesses and are controlled through the Group's risk management processes. The primary risks that have the potential to adversely impact on our business over the next twelve months are considered to be as follows:

- Contract and build risk: We carry out several hundred contracts annually and the risks to which the Group is exposed are dependent upon the nature of the work, the duration of the contract and the legal form of the contract. The Group's appetite for very long-term, large, competitively tendered construction contracts is limited, driven by the desire to manage risk. Tenders for contracts are subject to approval by the Board, chief executive and finance director or divisional directors depending on the value and nature of the contract. Contracts in progress are controlled and managed through the Group's operating structure and procedures including rigorous and regular review of forecast revenue and costs to complete.

- Land acquisition risk: The cost and quality of land is fundamental to the profitability of a housing development business. Site evaluation is a key process and site appraisals are carried out in detail including external advice where appropriate. Land acquisitions are subject to approval by the Board, chief executive and finance director or divisional directors depending on the value and nature of the contract. Developments in progress are controlled and managed through the Group's operating structure and procedures including rigorous and regular review of forecast revenue and costs to complete.

- The housing market: Our ability to sell houses depends on the demand for housing which, in turn, is linked to consumer sentiment. We manage the exposure by ensuring that we closely control levels of work in progress to match the level of demand. Prices and incentives are reviewed regularly and adjusted as appropriate.

- Property development risk: Similar to housing land acquisition, acquiring the right property at the right price is fundamental to the profitability of the Property division. The division controls its development risk by commencing construction generally when it has either pre-sold or pre-let the development. Board approvals are required depending upon the value and nature of the development.

- Investment risk: The Group is selective in the PFI projects for which it bids, primarily concentrating on the sectors where we have established construction expertise.

- People are the key to this business and good people are a scarce resource. It is important that we attract the best, look after them and retain them. Health & Safety is a key feature and we have rigorous health and safety policies aimed at minimising health and safety incidents that may affect any staff, subcontractors and members of the public coming into contact with our business activities.

- Pension scheme deficit: The pension scheme liabilities and assets are subject to market movements and, although a long-term issue, regulations require us to respond to these long-term issues over the short term. Steps have been taken to eradicate our calculated deficit over a timeframe agreed with the Scheme Trustees.

The Trade City development undertaken by Kier Property in Weybridge is already 90% pre-sold or pre-let. There is also another Trade City development nearing completion in Hemel Hempstead, where Kier Property has recently acquired another property for development.

United Utilities' new, three-stage Ridgaling Water Treatment Works were officially opened in July. The event signified the completion of the £19.5m project undertaken by KMI Plus (a joint venture that includes Kier Construction) and included the donation of £2,000 by KMI framework director, Kevin Cottam, to Pendleside Hospice, Diabetes UK and Cancer Help.

Operating and financial review
Corporate social responsibility

The Strategy for Sustainability policy document was published and distributed widely in print and electronic form by the Kier sustainability steering group, chaired by main board director, Paul Sheffield, in the summer of 2007, to formalise the Group's strategy on environmental, social and economic issues.

Corporate social responsibility (CSR) is an increasingly important part of what defines a well-managed, trusted company and the Group is committed to addressing sustainability through a responsible approach to economic, environmental and social issues in all it undertakes.

CSR related awards 2006-2007	Category
Apprentice of the Year	Alex Magilton
British Institute of Facilities Management	Sustainability
Business in the Community for Yorkshire & Humberside	Big Tick for Employability
Considerate Constructors Scheme	1 Gold, 2 Silver, 11 Bronze
Contract Journal	Diversity
Contract Journal	Training
Excellence in Human Resource Management	Improving staff morale
Green Apple Award	x 2
Homes for Islington Apprentice of the Year Awards	Ediz Hassan - apprentice joiner
Hot Property New Homes Awards	Best community development - platinum
London Excellence Awards	CSR
National Green Award	Built environment
Peterborough Business Awards	Environmental business of the year
Quality in Construction	Safety management
RICS	Most sustainable building in the south-east
RICS Pro Yorkshire Awards	Community benefit
Royal Institute of British Architects	Conservation
Royal Institute of British Architects	Sustainability
Sheffield Business Awards	Training
West Yorkshire Built in Quality	Community project

Kier is committed to sustainability
The Group's strategy document for sustainability was produced and launched in 2007. This document marks the first stage in fulfilling one of the Board's seven main objectives laid out in last year's annual report by stating clearly the aspirations of the Group in meeting its overall corporate responsibilities: 'To provide leadership in the raising of awareness and understanding of sustainability in our workforce, members of our supply chain, our clients and other stakeholders and to encourage participation in achieving our goals.'

Drawn up by the Kier sustainability steering group, which is chaired by main board director Paul Sheffield, the strategy for sustainability forms the basis of a Board policy statement designed as a framework within which each of our businesses will further develop and implement their own processes and mechanisms to meet their corporate responsibilities towards economic, environmental and social issues. The strategy was distributed internally via the company intranet and, externally, on the Kier website. A full issue of the Kier Journal, the Group's in-house magazine, was also dedicated to sustainability in order to demonstrate to all staff the vast array of activities already being undertaken by Kier people in fulfilment of these aspirations for corporate responsibility.

1. Sheffield City Council and Kier Sheffield joined the residents and school children of Darnall on a community forestry project to begin the planting of some 2,000 trees to create a pocket woodland for the local community.
2. Kier Building Maintenance awarded prizes to primary school children from 12 primary schools as part of the Glitter Bin initiative in Stoke-on-Trent, which brought together environmental awareness, creative art and drama to highlight environmental issues, the need for recycling and the dangers of litter.
3. When Kier Western offered to sponsor a new strip for Writhlington School's hockey team, they decided to put the kit and their players through their paces by challenging the team to a six-a-side indoor hockey match… which was tied at five-all!
4. Kier Building Maintenance is a partner in the Young Apprenticeships Programme in Construction scheme alongside the Learning & Skills Council, West North West Homes Leeds and South South East Homes Leeds. Initially developed by Leeds College of Building in conjunction with four local schools, the programme runs over two years with students undertaking two vocational training days a week at Leeds College of Building and on construction sites, where they are supported by dedicated supervisors from the Group.
5. Kier South East has celebrated the completion of a new Tesco store at Pulborough, West Sussex, by sponsoring Pulborough Cricket Club under-16s Colts Team. The company also organised a day for local school children to be shown around the live building site before it was completed.
6. Moss Construction organised a tour of the new extension to their primary school for pupils from Thatcham Park School, Newbury. This project is part of the SECE framework in which several Kier companies are partners.

1. Kier Eastern, while on site at Taverham High School carrying out a programme of extensions and modernisation, has engaged pupils and teachers in the ongoing work so they feel part of the process. It also supported extra-curricular activities by providing essential clothing for pupils on their tall ship excursion from Torquay to France. Kier Managed Services is also working on the project which is part of Kier Project Investment's Norwich Schools PFI scheme.

2. Kier Islington's recent ISO 14001 achievement has been lauded by Islington councillors who were impressed by the importance placed by the company on the use of dual fuel vans to complement the Council's objectives on emissions.

3. Twigden Homes apprentices working on the Elliott Mews development in Tempsford, Bedfordshire.

4. This year Kier Building Maintenance was pleased to support 'Take Our Sons and Daughters to Work Day' in both Islington and Harlow. In total over 30 children attended this international annual event designed to give children a better understanding of where their parents work.

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Operating and financial review
Corporate social responsibility
continued

Business in the Community AWARDS 2007

Business in the Community for Yorkshire & Humberside awarded Kier Building Maintenance a Big Tick Award for Employability.

The strategy for sustainability sets out the following aims:

1. To increase profitability by making more efficient use of resources, including labour, materials, water and energy.
2. Where we have responsibility or can influence the design on a project, to minimise any negative environmental impact of our operations through effective waste management, appropriate choice of materials and careful consideration of design.
3. To provide leadership and raise awareness of sustainability in our workforce, members of our supply chain, our clients and other stakeholders and to encourage participation in meeting our goals.
4. To continue to support local communities through opportunities for employment, interaction with schools, liaison and support for local well-being, contributing to local charities and voluntary organisations where appropriate.
5. To continue to develop and train our employees to raise their aspirations and to meet the future demands of the business and individuals.
6. To achieve greater sustainability year-on-year. To this end each business unit will develop a strategy setting out objectives and targets against these aims.

Two other key aims were also highlighted in the strategy:

- To enhance our programme of continuous improvement of health, safety and welfare standards as an integral part of the management culture in our staff and throughout our supply chain.
- To continue to strive to be the Group that puts 'health' back into health & safety and supports its staff with occupational health and lifestyle advice.

Associated with the promulgation of our new strategy for sustainability initiative, the Group also launched a formal and robust Group sustainable procurement policy statement in 2007. This policy's objective is to ensure that, as far as is practicable, we purchase materials and services that through their use, sourcing, or manufacture, have the smallest impact on both society and the environment. This new policy statement now joins the Group's other already established policy statements within our CSR portfolio, including those on equality & diversity, environmental, whistleblowing, health & safety, and fraud awareness.

The Group is committed to sustainability and its delivery through our CSR programme as part of our overall vision and core values.

Environmental management
Kier has been accredited to ISO 14001 for its environmental management systems. These provide fully externally audited frameworks by BSI and others which enable us to effectively benchmark our performance both internally and externally. We continue to explore environmental best practice and in conjunction with MCG and supply chain members, take all opportunities to ensure sustainable, environmentally friendly solutions where practicable. We are committed to the reduction of waste and support and participate in the provision of information relating to the environmental performance of the construction sector by using indicators agreed with the MCG.

Kier in the community
The Group's services, delivered locally, nationally and internationally through its five integrated divisions, are centred broadly on the provision of the built environment for society at large. As such, the Group and its activities have a significant influence over, and potential impact upon, the economic, environmental and social well-being of the communities in which it operates. By recognising, addressing and embracing these issues as a fundamental part of maintaining a sustainable business today, Kier is committed to meeting its corporate social responsibilities for the sake of future generations.

The three central pillars that make up the Group strategy for sustainability concern environmental, social and economic issues, each inextricably connected and mutually dependent upon the others. Therefore, when addressing the overall topic of community relations in the context of delivering its business, the Group has to assess its impact upon, and responsibilities for, the environmental, social and economic well-being of society at large and the local communities within which it works in particular.

This commitment is enshrined in the following statement within this strategy: 'Kier Group and its trading companies aspire to build positive relationships within those communities wherever our operations take us… we are committed to "putting something back" as part of everything we do. We will:

- create training and job opportunities within those communities where we work;
- be a good neighbour and support appropriate local charities and initiatives;
- encourage wider employee participation; and
- use our influence to steer change for the better.'

Group businesses plan, invest in, design, build, maintain and service the built environment. In every one of these activities we not only benefit society by delivering this living and working environment, but, in so doing, we inevitably impact upon the natural environment and neighbouring people, albeit usually in the short term. It is up to us as individuals, as project teams, including those who work with us throughout the supply chain, and as a company, to minimise any negative impact and to maximise the benefits we can bring to those communities.

Fully recognising our corporate responsibilities towards society, and to help us formalise and structure our approach to delivering those responsibilities, the Group has become a member of Business in the Community (BITC) and is an associate member of the Considerate Constructors Scheme (CCS). As mentioned above, the Group's accreditation to ISO 14001 for our environmental management systems also covers issues such as noise, vibration, dust and pollution controls, thereby contributing to the effective implementation of our community relations plan.

The Kier Residential Apprenticeship Scheme has recently seen its first anniversary and as the exam results flow in it is evident that this has been an excellent first year for the 42 trainees, some of whom are pictured.

Environmental key performance indicators for Construction division	Actual 04/05	Actual 05/06	**Actual 06/07**
Cost of waste as % of revenue	0.37	0.35	**0.33**
Kilogrammes of carbon emitted per square metre	82.63	74.13	**49.16**
Environmental training days per person/year	0.19	0.10	**0.15**
Infringements	0	0	**0**

To further assist all Group employees to engage in delivering best practice community relations in their workplace, we are producing a document, 'Guidance for project-based best practice in Community Relations', for both staff and subcontractors. It is designed to give everyone within the Group ideas and a tool-kit to improve and make more consistent our approach to community relations as well as to explain some of the processes available to us through membership of the BITC and CCS schemes. It also encourages all staff to participate in local initiatives to support children and schools, to get involved in local charitable activities and to try to put something back as part of everything we do.

One element of our executive development programme includes a community project aimed at improving the lives of some of those less fortunate than ourselves.

Donations to charity

During the year ended 30 June 2007, the Group companies donated, directly and indirectly, £109,000 to a wide variety of charities and other establishments right across the United Kingdom and overseas. As in the past, we record direct Group cash donations annually (see the directors' report on page 35), but within this report we are now monitoring all of our external sponsorship, including those sums raised by individuals and teams in sporting activities. This will be monitored in future against this year's benchmark figures.

The key areas of Group support during the year are as follows:

	£'000
Education	3
Sports	27
Wider community events	23
Employee sponsored challenges	2
Direct support for the needy	44
Other	10
Total	**109**

Leading Group companies contributing to this total were Kier Sheffield, Kier Building Maintenance in London, Kier Construction and Kier Property.

Employment

In the pursuit of delivering a sustainable business, the Group continues to attract, develop and retain employees of the calibre required to ensure the delivery of our vision, which is to be the most highly respected Group in the industry. We remain committed to offering good career opportunities for young people in construction skills through innovative apprenticeship and training programmes. Several awards have been won in consecutive years for initiatives based upon recruiting youngsters from local communities within which our work takes us to offer on-the-job training mentored by our own experts at project level. From their induction both locally and corporately, new employees are encouraged to uphold our core values at the forefront of all our operations and to add value to our services for clients, suppliers, subcontractors, shareholders and the communities in which we work.

The Group is a committed equal opportunities employer. Our equality and diversity policy is available on our website, as is our commitment to sustainability and corporate responsibility. Kier chief executive, John Dodds, is the director responsible for all personnel and human resource issues, including health, safety and welfare, and reports to the Board on both opportunities and risks associated with personnel matters.

People development and training

The Group is committed to the lifelong development of all its employees. Our approach involves recruiting talented people into the industry and a career development framework that supports people from entry level to senior leadership and prepares our teams to meet and exceed our customers' requirements. Our career development framework incorporates a series of programmes, covering people at all stages of their careers.

The Group is committed to its equal opportunities policy that encourages job applications from all sectors of the community. This is demonstrated by the diversity of the people recruited. At the introductory level part of its career development programme, the Group has recruited over 80 graduates and 80 students to start their professional careers with the Group. It offers a comprehensive and structured graduate scheme that includes technical and managerial training to recognised professional standards. This helps to motivate people in the Group to achieve their career goals, and to attract high levels of new recruits. The Group continues to work with schools, colleges, universities and careers advisors to promote the construction industry as a career choice and has over 150 people currently studying for technical qualifications on various training schemes having joined the Group as school leavers. Kier also has over 160 craft apprentices in construction skills. Over 12% of our workforce is on new entry training programmes, and this helps us to maintain and improve the talent of our workforce. This balanced approach will be further enhanced over the next year.

Kier Building Maintenance South has achieved a fantastic one million working hours without a reportable incident. The company operates contracts in Greenwich, Ealing, east London and Brighton, with 230 employees.

The Group actively encourages all employees to achieve full professional membership in their relevant discipline. Our graduate scheme trains employees to full membership in over ten recognised professional institutions. The Group is established as an NVQ centre, and is recognised by the Joint Awarding Body as a model of best practice for the delivery of NVQs in Construction Management. We currently have over 70 professional and technical staff working towards construction management NVQs. Additionally, we are delivering specialist plant operators' NVQs at our Greenburn open cast mining site. Our technical training is based around the findings of various best practice groups and helps to disseminate knowledge around the Group, and this professional level of competence adds value for our clients.

The Group's aim is to develop our staff into our future management as this delivers long-term continuity and success for the Group. Our management development programmes have supported us in doubling the amount of promotions within the Group in the last three years.

The Group has been running an executive leadership programme based around defined competencies that is giving structured development to senior management and directors. This is linked to the Group's strategy of sharing best practice around the Group. During 2006, the Group introduced a directors' development programme aimed at supporting our business leaders.

In October 2006, the Group was awarded the Contract Journal Award for Training, with independent judges stating, '…the Kier Group was a clear winner due to the depth, scope and quality of the training & development in Kier.'

The Group works proactively to overcome industry challenges such as skills shortages through its work with schools, colleges and universities. We focus on customers by ensuring our workforce is fully competent and able to deliver best practice for clients. The continual investment in people at Kier is embedding a deep-rooted development culture to bring about our long-term success.

Health & Safety

The Group's management strategy for Safety, Health & Environmental issues is a significant area of focus for all members of the Group management teams, employees and supply chain members. Our management system is accredited to ISO 18001 standard and is externally audited on a scheduled programme by BSI. In the reporting period we have received accolades for our management system via external safety awards throughout the Group operating companies.

The past year has seen a clear focus on people issues, raising awareness within the workforce and supply chain of the areas that cause injury and ill health. One of the biggest challenges to industry is tackling the professional risk takers to re-educate them into working safely. Part of the Group's programme linked to the 'Don't Walk By' message involves addressing behavioural issues. This process is being developed over the next three years by our in-house occupational psychologist and it is hoped it will help to further enhance the safe working environment that we require on all of our projects.

We are an active MCG member and in conjunction with all MCG members continue to support and deliver the MCG health & safety strategy on both safety issues and occupational health improvements. As part of our commitment to occupational health we have a qualified occupational health manager who is charged with developing our internal strategy that will link into industry and best practice delivery options at site level. The awareness profile of occupational health issues is communicated to the supply chain using awareness packages that have been developed by the Group and other MCG members.

Customers

Good customer care remains one of our fundamental principles and we constantly monitor and report on customer satisfaction levels. The volume of repeat and negotiated business maintained by Group businesses year-on-year demonstrates our high level of interaction with our customers and supply chain to ensure continuous improvement to delivering quality, value and innovation to their projects and businesses. Where appropriate we involve customers in our conferences, workshops and project groups as well as social functions in order to maintain trust and commitment for mutual benefit. In particular, our wide-ranging activities in providing, building, repairing and maintaining homes, both residential, affordable and social, see us working in residents' and tenants' homes where the highest standards of customer care are required – especially the need for considerate and sensitive consultation and listening to needs. Similarly, a proactive approach to community relations wherever we work helps to maintain and protect the reputation of our customers amongst their neighbours and the public at large.

Peter Warry
(non-executive chairman)
Aged 58, was appointed as non-executive chairman of the Group in November 2004, having joined as non-executive director in 1998, and is chairman of the Nomination Committee. He is also chairman of Victrex PLC and BSS Group PLC. Previously he was an executive director of British Energy plc and chief executive of its English generating company.

Deena Mattar
(finance director)
Aged 42, was appointed to the Board as an executive director in September 2001. She joined Kier in 1998 from KPMG where she developed an in-depth knowledge of construction. She held the role of finance director of the Group's major projects, mining and international projects arm until July 2001 and was appointed Group finance director in November 2001. She is also chairman of Kier Project Investment.

Paul Sheffield
Aged 46, joined the Group as a graduate engineer in 1983. He has extensive knowledge of both UK and overseas contracting and was appointed managing director of Kier Construction in 2001, chairman of Kier Construction in 2003 and joined the Kier Regional board in 2004. He was appointed to the Board in October 2005 and has responsibility for the Group's infrastructure and overseas businesses as well as holding the position of deputy managing director of Kier Regional.

John Dodds
(chief executive)
Aged 62, was appointed chief executive in May 2003 and has been with the Group since 1970. He has spent time overseas working particularly in Africa and Hong Kong returning to the UK to lead the civil engineering business. Following the buyout he was responsible for major projects, mining and international operations and was chairman of Kier Project Investment. He holds the position of director with overall responsibility for safety, health & environmental matters and is a member of the Nomination Committee.

Ian Lawson
Aged 50, rejoined the Group in November 2000 as managing director of the Group's Infrastructure Investment operations, having previously held senior management positions elsewhere in the industry. His knowledge of major overseas and UK contracting was established early in his career within the Group. He was appointed managing director of Kier Eastern in July 2002 and joined the Kier Regional board in January 2003. He was promoted to the Support Services division as managing director in September 2004 and in October 2005 was appointed main board director responsible for Support Services.

Dick Side
Aged 61, joined Wallis in 1983 as managing director of its Construction division. His 24-year career with the Group has been spent in regional contracting and he was appointed managing director of Kier Regional in 2001. In January 2003 he became main board director responsible for the Group's Regional construction division.

Dick Simkin

Aged 59, joined the Group in 1989 and has made a significant contribution to strengthening Kier's presence in the property sector. He played a key part in the Group's acquisition of Laing Property in 2002 and was appointed to the Board in January 2003 as director responsible for the Group's Property division.

Simon Leathes
(non-executive)

Aged 59, was vice chairman for support services at Barclays Capital, the investment banking division of Barclays PLC, from January 2001 to December 2006. He previously held senior appointments at Lend Lease Corporation, Hambros PLC and SG Warburg Group plc and now provides financial and investment advice to companies and institutions. He was appointed to the Board in March 2001 and is chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

Chris Geoghegan
(non-executive)

Aged 53, was appointed to the Board in July 2007. He joined the Board of BAE Systems plc in July 2002 as chief operating officer with responsibility for all European joint ventures and UK defence electronics assets. He is also a non-executive director of Hampson Industries, a Fellow of the Royal Aeronautical Society and a past president of the Society of British Aerospace Companies. He is a member of the Audit, Nomination and Remuneration Committees.

Mick O'Farrell

Aged 45, joined the Group in May 2003 as managing director of Allison Homes and became managing director of Kier Residential in August 2005. He was appointed to the Board in October 2006. Mick has many years of experience in housebuilding, having held senior positions in other major housing businesses.

Phil White CBE
(non-executive)

Aged 58, was appointed to the Board in July 2006. He served as chief executive of National Express Group plc from January 1997 to September 2006. He is a chartered accountant and has extensive experience of both listed and private companies. He is currently chairman of Lookers Plc and ACIS Limited. He is the senior independent director, chairman of the Remuneration Committee and also a member of the Audit and Nomination Committees.

Matthew Barton
(company secretary)

Aged 33, joined the Group in September 2004 from lawyers Cleary, Gottlieb, Steen and Hamilton, where he advised the Group on a variety of issues. At Cleary Gottlieb he had a wide-ranging commercial practice including advising both public and private clients on major domestic and cross-border transactions. He is responsible for corporate governance within the Group and, as general counsel, has oversight of the Group's legal affairs.

Financial statements

The directors present their annual report and audited financial statements for the year ended 30 June 2007.

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

A review of the Group's business and progress is given within the operating and financial review on pages 6 to 31.

Results and dividends
The Group profit for the year after taxation was £56.3m (2006: £42.9m).

An interim dividend of 9.6p per share (2006: 8.2p) amounting to £3.5m (2006: £2.9m) was paid on 18 May 2007. The directors propose a final dividend of 40.4p per share (2006: 17.8p per share) amounting to £14.6m (2006: £6.3m) payable on 4 December 2007 to shareholders on the Register of Members at the close of business on 28 September 2007.

Share capital
Details of shares allotted by the Company during the year appear in note 21 of the consolidated financial statements.

Directors
The directors of the Company during the year are shown on pages 32 and 33. Mr P F Berry retired on 30 June 2007 and Mr C V Geoghegan was appointed a director on 1 July 2007.

At the forthcoming Annual General Meeting, resolutions will be proposed for the re-election of Mr I M Lawson, Miss D E Mattar, Mr M P Sheffield and Mr R W Side. Mr C V Geoghegan will be proposed for election for the first time. At that date, the unexpired term of the contract of employment with the Company of each of the executive directors will be 12 months.

Details of directors' interests are disclosed in the directors' remuneration report on pages 42 and 43.

The Articles of Association of the Company provide for the indemnification of its directors out of the assets of the Company in the event that they suffer any loss or liability in the execution of their duties as directors and the Company has entered into deeds of indemnity with its directors entitling them to be indemnified to the extent permitted by statute.

The Company has insurance in favour of its directors and officers in respect of certain losses or liabilities to which they may be exposed due to their office.

Substantial voting rights
At 12 September 2007, the Company had been notified of the following interests in the Ordinary Share Capital of the Company:

J P Morgan Chase & Co	4.73%
Barclays PLC	3.42%
Legal & General plc	3.29%
Lloyds TSB Group plc	3.07%

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

Combined Code
A statement on corporate governance is set out on pages 36 to 38.

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

Donations
Group donations to charity in the United Kingdom were £71,000 (2006: £51,000). In addition, the Group spends considerable time and effort contributing to charitable events in the community. No political donations were made (2006: nil).

Policy on payment of creditors
The Group agrees payments with its suppliers and subcontractors on an individual contract basis rather than following a standard code. The policy is to abide by these agreed terms whenever it is satisfied that the suppliers or subcontractors have provided the goods or services in accordance with the contract terms and conditions. The aggregate amount owed to trade creditors by the Company at the end of the year was nil (2006: nil).

Subsidiary trading companies within the Group, acting in accordance with the above policy, exhibit creditor days averaging 32 (2006: 37) in respect of suppliers of invoiced goods and services and 20 (2006: 20) in respect of certified amounts due to subcontractors. These figures exclude amounts not currently due for payment but included within trade creditors.

Financial instruments
Details of the financial risk management objectives and policies of the Group along with its exposure to material financial risks are set out in notes 1 and 25 of the consolidated financial statements.

Auditors
A resolution for the reappointment of the auditors, KPMG Audit Plc (KPMG), will be proposed at the Annual General Meeting. The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed on behalf of the Board.

M D Barton
Secretary

12 September 2007
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

The Code

The Board recognises the importance of high standards of corporate conduct and is committed to managing the Group's operations in accordance with the best principles of corporate governance as contained within Section 1 of the Combined Code on Corporate Governance (the Code) issued in June 2006 and has complied with the Code throughout the year except as explained below.

Independent non-executive directors do not comprise half the Board. This has been debated by the Board, who do not consider the structure recommended by the Combined Code to be appropriate for the Group, as it is felt vital that each significant operating division should be represented on the Board at executive level. This currently requires no less than seven executive directors including the chief executive and the finance director. It is not felt either practical or desirable to operate a board with seven independent non-executive directors in the foreseeable future.

Board of directors

The Board of Kier Group plc is responsible to its shareholders for the success of the Company. It sets the strategic and financial policies of the Group, monitors and reviews business performance and controls risk. As part of the Group's organisational structure (described on page 38 under 'Internal control') the Board has put in place standing orders which are designed to ensure the provision to it of relevant information on a timely basis, which set authorisation limits and which reserve certain matters for the Board or its committees, including:

- strategy and financial policy;
- the approval of financial statements;
- risk management;
- major capital expenditure;
- major project approval;
- acquisitions and disposals; and
- certain aspects of human resource policy, including senior appointments, general salary reviews, employee share plans and pension provision.

The principal matters considered by the Board during the year included:

- the Group's budgets, strategy and financial requirements;
- the full and interim reports and accounts (taking into account the views of the Audit Committee);
- the appointments of Mr M O'Farrell and Mr C V Geoghegan as directors (upon the recommendations of the Nomination Committee);
- appropriate measures to safeguard the Group's final salary pension scheme;
- the implications of and proper approach to the issues with the Castlepoint shopping centre car park;
- potential acquisitions;
- systems and procedures in the Residential division;
- health and safety strategies and particular issues as they arose;
- issues relating to a construction contract for Sandals in Antigua;
- the investigation by the Office of Fair Trading into alleged cover pricing by a Group company;
- presentations as to strategic issues from the senior management of a number of the divisions; and
- the merits of a share split/bonus issue.

The Group's chairman is Mr P T Warry who leads the Board, is responsible for its effectiveness and sets its agenda. He facilitates the effective contribution of the non-executive directors and ensures a positive and constructive relationship between the executive and non-executive directors. The chairman is also responsible for effective communication with shareholders.

The chief executive is Mr J Dodds who is responsible for the operational management of the Group and is accountable to the Board for the implementation of the Group's strategy. In order to facilitate this, the chief executive meets monthly with a management committee comprised of the other executive directors, he also chairs monthly management meetings with each of the divisions. As director responsible for human resource matters and Health & Safety he also meets regularly with the head of personnel and the director of safety, health & environment.

The senior non-executive director is Mr P M White who succeeded Mr P F Berry on his retirement on 30 June 2007.

Biographical details of all the directors are set out on pages 32 to 33. All the directors with the exception of Mr C V Geoghegan served throughout the year. The Board considers Mr C V Geoghegan, Mr S W Leathes and Mr P M White to be independent.

A table of attendance of directors at meetings of the Board and its various committees is set out on page 37. In addition to these meetings, the full Board attends an annual away-day which focuses on strategy on a divisional basis, material issues facing the Group and succession planning. Outside of the formal schedule of meetings, the non-executive directors met without the executive directors a number of times during the year.

All directors have access to the advice and services of the company secretary and the directors are able to seek independent professional advice if necessary at the Company's expense. Training is available for new directors and subsequently as necessary. All directors are subject to election by shareholders at the first Annual General Meeting following their appointment, and to re-election thereafter at intervals of no more than three years. Executive directors are required to seek approval from the Board before accepting any external non-executive positions, although none is currently held.

The Remuneration Committee and Board encourage directors and staff at all levels to acquire shares in the Company and to hold them for the longer term. This sense of ownership is an important element of Kier's culture and of its focus on long-term performance. As far as possible the Group prefers to promote individuals from within.

Board evaluation

The chairman carried out an evaluation of the Board in the summer of 2007 by way of an externally developed objective based questionnaire. This included all the committees of the Board. The chairman held individual meetings with each director to discuss their views and to canvass suggestions. The conclusions were discussed collectively by the Board and a number of actions agreed. The performance of the chairman is reviewed separately in a process led by the senior independent director.

The terms and conditions of appointment of the non-executives are available for inspection at the registered office and will be on display prior to and at the Annual General Meeting.

Audit Committee

The Audit Committee comprises the three independent non-executive directors under the chairmanship of Mr S W Leathes, a chartered accountant with recent and relevant financial experience. Mr C V Geoghegan was appointed to the Committee with effect from 1 July 2007. The Committee met three times during the year in September, March and June prior to the Board meetings. These Committee meetings were also attended by the finance director and the head of internal audit. The KPMG audit engagement director attended the September and March meetings. The chairman and executive directors were also invited to attend the meetings. The Committee also met with KPMG without the presence of the management.

The Committee has clearly defined terms of reference which outline its objectives and responsibilities relating to financial reporting, internal controls, risk management and the application of appropriate accounting policies and procedures. Specific responsibilities include reviewing and recommending for approval the annual and interim financial statements, reviewing the Group's accounting policies, reviewing the effectiveness of internal controls and risk management and reviewing the scope and results of the external audit.

The Audit Committee also has responsibility for overseeing the Group internal audit function including approval of the annual risk-based audit plan and monitoring the work, recommendations and effectiveness of the function. The head of internal audit reports directly to the chairman of the Audit Committee.

At each of its meetings the Committee received and reviewed a report from the head of internal audit which highlighted the status of the Group risk management processes and audit activity against the approved plan together with the findings from internal audits. The chairman of the Audit Committee also met regularly with the head of internal audit and the Committee has met with the head of internal audit without the presence of management. The Committee carried out a review of the effectiveness of the internal audit function at the June meeting.

The Committee is responsible for monitoring the independence and objectivity of KPMG, the external auditor, and agreeing the level of remuneration and extent of non-audit services. The Committee received a presentation from KPMG on its audit strategy and the scope of work at the March meeting which it agreed. It also discussed the firm's professional ethical standards.

The Committee reviewed the performance of KPMG and the level of non-audit fees paid to them during the year, which are set out in note 3 to the consolidated financial statements. The provision of non-audit services, other than tax compliance and routine taxation advice, must be referred to and agreed by the Committee over a pre-determined cost threshold and any work costed below that threshold must be pre-approved by the Group finance director.

No consultancy-related work has been carried out by the auditors during the year. The Committee was satisfied, following its review, that KPMG's objectivity and independence had not been impaired.

The Committee agreed and approved the audit fee at the June meeting following discussions between divisional management and the divisional KPMG audit teams.

The Committee's terms of reference are reviewed annually and were updated in 2004 in line with the guidance and recommendations of the revised Combined Code. The terms of reference are available on request and on the Company's website.

Remuneration Committee

The Remuneration Committee comprises the three independent non-executive directors, under the chairmanship of Mr P M White, who succeeded Mr P F Berry on his retirement on 30 June 2007. Mr C V Geoghegan was appointed to the Committee with effect from 1 July 2007.

Information about the workings of this Committee is contained in the directors' remuneration report on page 39. The Committee makes recommendations to the Board on the Company's framework of executive remuneration and determines, on its behalf, specific remuneration packages for each of the executive directors. In doing so it takes the advice of independent external consultants. The terms of reference are available on the Company's website.

Nomination Committee

The Nomination Committee presently comprises the chairman, the chief executive and the non-executive directors. Mr C V Geoghegan was appointed to the Committee with effect from 1 July 2007. It is responsible for monitoring the composition and balance of the Board, making recommendations to the Board on new Board appointments and succession planning. The Committee met twice during the year. Recruitment consultants were retained in relation to the appointment of Mr C V Geoghegan. The Committee's terms of reference are available on the Company's website.

Board and Committee meetings

Details of the number of meetings of, and attendances at, the Board, the Audit, Remuneration and Nomination Committees are set out in the table below.

Name of director	Board – (12)	Audit – (3)	Remuneration – (2)	Nomination – (2)
P T Warry	12	–	–	2
J Dodds	12	–	–	2
I M Lawson	12	–	–	–
D E Mattar	12	–	–	–
M O'Farrell[1]	9	–	–	–
M P Sheffield	12	–	–	–
R W Side	12	–	–	–
R W Simkin	12	–	–	–
P F Berry	11	3	2	2
S W Leathes	12	3	2	2
P M White	12	3	2	2

[1] Mr M O'Farrell was appointed on 1 October 2006.

Internal control

The Combined Code requires that the directors review the effectiveness of the Group's system of internal control. This extends the directors' review to cover all material controls, including operational, compliance and financial controls and risk management systems. The directors are satisfied that procedures are in place to ensure that the Group complies with the Turnbull Committee guidance published by the Institute of Chartered Accountants in England and Wales and that the procedures have been applied during the year.

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

The key features of the Group's system of internal controls and principal controls are:

- an established management structure operating throughout the Group with clearly defined levels of responsibility and delegation of authorities;
- clearly defined operating guidelines and procedures with authorisation limits set at appropriate levels. These are set out in the Group and divisional standing orders;
- a comprehensive budgeting and forecasting system in place which is regularly reviewed and updated;
- a formal quarterly review of each division's year-end forecast, business performance, risk and internal control matters is carried out by the directors of each division with the chief executive and finance director in attendance;
- monthly management reporting including regular comparison of actual results against latest forecasts;
- established policies and procedures governing the Group's investment in land, property and other significant assets, including acquisitions and disposals. These include detailed appraisals, appropriate authorisation levels and Board approval depending on value or perceived exposure;
- investment decisions, including Private Finance Initiative (PFI) projects and tenders for contracts are subject to approval by the Board, the chief executive and finance director or divisional directors depending on the value and nature of the investment or contract. Individual tender and project review procedures are in place prior to bidding and before contract award;
- internal audits are carried out to assess the adequacy and effectiveness of internal controls. The scope of the internal audit work is planned to cover the key risks faced by the business and supplemented by cyclical reviews of the core financial process. Internal audit findings are reported to the Audit Committee and the executive directors on a regular basis;
- risk registers are in place for each business unit which highlight the key risks facing that business together with an assessment of the effectiveness of controls to mitigate those risks. The risk registers are updated regularly and at 31 March;
- an annual process of risk and control self assessment is used in the Group whereby all operating companies are required to review and confirm that appropriate internal controls are in place and operating effectively across the key risk areas identified in individual company risk registers. This assessment was carried out on 31 March 2007 and the findings reviewed by the Audit Committee;
- regular monitoring, review and reporting of safety, health and environmental matters; and
- the provision of a confidential method of reporting any suspected fraud or other misfeasance to the head of internal audit.

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

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

Relations with shareholders

The Board uses the Annual General Meeting to communicate with shareholders and encourages their attendance and participation. The chairmen of the Audit Committee and the Remuneration Committee are available to answer questions from shareholders. The Group also maintains a regular dialogue with institutional investors to assist in the understanding of the Group's objectives and the Company has a programme of regular communication with investors, analysts and brokers. Presentations are made to investors, analysts and press at the time of the announcement of the final and half-year results and there are regular meetings with analysts and investors which are arranged through the Company's brokers so that the investment community can be kept informed. The Board is provided with independent feedback from analysts and institutional shareholders periodically.

The Kier website is also maintained to aid communication with investors, employees, customers, suppliers and the general public.

The Remuneration Committee
The Remuneration Committee is a Board committee consisting entirely of independent non-executive directors. The following directors were members of the Committee for the year ended 30 June 2007:

P F Berry (chairman)
S W Leathes
P M White

P M White was appointed as chairman of the Remuneration Committee on 1 July 2007.

The secretary of the Committee is Mr M D Barton, company secretary.

The terms of reference of the Committee are available on the Group's website and on request from the company secretary. The Committee meets when necessary, but not less than once a year. The Committee consults the Group chairman and chief executive concerning its proposals (except in relation to their own remuneration) and takes external professional advice as appropriate. In respect of the year ended 30 June 2007 the Committee appointed New Bridge Street Consultants LLP as its independent remuneration advisors. New Bridge Street Consultants LLP provides no other service to the Company. Where necessary, or appropriate, the Committee instigates consultation with major institutional shareholders on remuneration matters.

Remuneration policy
The Committee makes recommendations to the Board on executive remuneration policy for adoption by the Board and determines specific remuneration packages for each of the executive directors on behalf of the Board. The Committee also monitors remuneration packages of other senior executives throughout the Group. Remuneration and benefits are set at market levels comparable with companies of similar size and scope of activity in order to be able to attract, retain and motivate high calibre individuals. The Committee's policy is to maintain an appropriate balance between fixed elements of remuneration (basic salary, benefits in kind and pension) and performance-related elements (annual bonus and long-term incentives) and to place much greater emphasis on rewarding executives by reference to the Group's long-term performance rather than its short-term results. The remuneration received by each of the directors, together with details of share interests and pension benefits, are set out on pages 41 to 43.

Executive directors' remuneration consists of a basic salary together with an annual bonus, benefits in kind, awards under a Long-Term Incentive Plan (LTIP), and membership of a pension scheme. The remuneration components are set out below:

Basic salary
Salaries for executive directors take account of external market data and the individual's responsibilities, experience and performance. Salaries are reviewed annually.

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

Annual bonus arrangements
A bonus is paid to all executive directors at a percentage of annualised basic salary (not exceeding 35%) if Group pre-tax profit attains targets pre-set each year. These targets are agreed by the Committee; they are not published externally for reasons of commercial confidentiality.

Retirement benefits
Executive directors participate in the Kier Group Pension Scheme which has both a defined benefit section and a defined contribution plan.

Executive directors in the defined benefits section accrue pension up to the value of the lifetime allowance. Where the value of pension exceeds the lifetime allowance, future pension accrual ceases and executive directors receive a pension allowance of 20% of salary.

Only the basic salary of directors is pensionable. Details of individual directors' pension arrangements are shown in a separate table on page 41.

Long-term incentives
Under the Kier Group 1999 LTIP, approved by shareholders, directors can receive awards of shares worth up to 100% of salary per annum. Awards granted in the year to 30 June 2007 are subject to the Group achieving the following adjusted earnings per share growth targets:

- the directors will receive 100% of the award if earnings per share increase by at least 20% per annum in excess of inflation (the maximum target) over the relevant three-year performance period;
- no awards will vest unless earnings per share over the same period increase by at least 5% per annum in excess of inflation (the base target) at which point 25% of the award will vest; and
- the proportion of the awards which will vest for performance between the base target and the maximum target will be calculated on a straight line basis.

The above targets were selected by the Committee to ensure that the Group would have to attain a substantial improvement in underlying financial performance before the awards could vest. Growth in earnings per share is the key performance measure used by the Group. The attainment of the performance targets is verified by the Remuneration Committee and reviewed by the Company's auditors. The calculation for earnings per share is carried out on a consistent basis such that the opening and closing earnings per share is both calculated under UK Generally Accepted Accounting Practice (GAAP) or both under International Financial Reporting Standards as appropriate at the time.

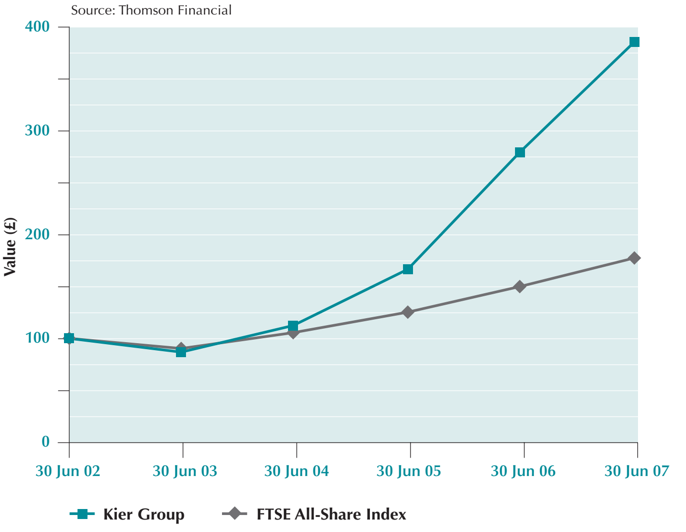
33.7% of executive directors' remuneration for the year ended 30 June 2007 was represented by the vesting under the LTIP on the basis of the share values at the time of the vesting. This calculation includes lower levels of award for directors within three years of their appointment to the Board.

The Remuneration Committee has set a policy whereby it encourages executive directors to build up a shareholding in the Company equal to at least one year's salary over a period of up to five years.

Service contracts
The Company has service agreements with its executive directors which have a notice period of one year although there is a duty to mitigate in the event of termination. As stated in the corporate governance statement, executive directors are required to seek approval from the Board before accepting any external non-executive positions. Any emoluments arising from such positions are taken into account by the Remuneration Committee. Currently, no external non-executive positions are held by executive directors.

Non-executive directors
The remuneration of the non-executive directors is determined by the Board and reflects the anticipated time commitment to fulfil their duties. Non-executive directors do not receive bonuses, long-term incentive awards, pension provision or compensation on termination of their appointment. The Company has agreements for services with each of the non-executive directors, all of which are terminable on no more than 12 months' notice by either party.

Total shareholder return
The following graph charts total cumulative shareholder return of the Company over the last five financial years. The index selected was the FTSE All-Share Index as the Company has been a constituent throughout the period.



The graph shows the value, by 30 June 2007, of £100 invested in Kier Group plc on 30 June 2002 compared with the value of £100 invested in the FTSE All-Share Index. The other points plotted are the values at intervening financial year-ends.

Audited information
Except for the disclosure on directors' interests the following information on pages 41 to 43 has been audited by the Company's auditors, KPMG Audit Plc.

Directors' emoluments

The value of all emoluments receivable by each director in respect of the year ended 30 June 2007 was as follows:

	Salary & fees £000	Pension supplement £000	Benefits £000	Bonus £000	**Total 2007 £000**	Total 2006 £000
P T Warry	113	–	1	–	**114**	105
J Dodds[1]	387	78	20	100	**585**	477
P F Berry	39	–	–	–	**39**	35
I M Lawson[3]	198	–	10	56	**264**	169
S W Leathes	37	–	–	–	**37**	33
D E Mattar[2]	245	–	22	69	**336**	326
M O'Farrell[4]	150	–	17	53	**220**	–
M P Sheffield[3]	198	–	12	56	**266**	167
R W Side[1]	269	54	12	69	**404**	307
R W Simkin[2]	227	–	15	64	**306**	303
P M White[5]	36	–	–	–	**36**	–
	1,899	132	109	467	**2,607**	1,922

1 The pension-related salary supplement is explained below in the pensions section.
2 Until April 2006, D E Mattar and R W Simkin received a 20% pension-related salary supplement.
3 Appointed to the Board on 1 October 2005.
4 Appointed to the Board on 1 October 2006.
5 Appointed to the Board on 1 July 2006.

Directors' pensions

Pension benefits earned by the directors during the year as members of the defined benefit section of the Kier Group Pension Scheme (the Scheme) are disclosed below.

	Increase in accrued pension over the year £000	Increase in accrued pension over the year[1] £000	Transfer value of increase in accrued pension[2] £000	Accumulated total accrued pension at 30 June 2007 £000	Transfer value of accrued pension at 30 June 2006 £000	Increase in transfer value[2] £000	Transfer value of accrued pension at 30 June 2007 £000
J Dodds[7]	25	17	324	253	4,600	250	4,850
I M Lawson	8	7	68	31	204	83	287
D E Mattar[4]	10	9	71	40	219	95	314
M P Sheffield	19	17	131	77	416	161	577
R W Side[6]	14	9	155	160	2,641	267	2,908
R W Simkin[4]	11	9	136	72	1,008	233	1,241

1 The increase in a member's accrued pension over the year shown above is the adjusted figure after allowing for inflation during the year.
2 Transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less directors' contributions.
3 Members also have the option to pay additional voluntary contributions. Neither these contributions nor resulting benefits are included in the above table.
4 In addition to the above pension benefits, the salary and fees paid to Miss D E Mattar and Mr R W Simkin for the period to 5 April 2006 included a pensionable allowance equal to 20% of salary in excess of the statutory earnings cap.
5 All member contributions to the Scheme are payable via a salary sacrifice arrangement.
6 Mr R W Side was granted an augmentation to his scale pension of £6,500pa during the year. At 6 April 2006, Mr R W Side elected for enhanced protection under the new HMRC rules and will accrue no further pensionable service in the Scheme after this date. He receives a pensionable allowance of 20% of salary in compensation for this change.
7 Mr J Dodds reached his normal retirement date on 23 September 2005. Any increase in his accrued pension after this date is due to the application of an actuarial late retirement factor to compensate him for late payment of his benefits. For the period after 23 September 2005, he receives a pensionable allowance equal to 20% of salary.
8 Mr M O'Farrell is a member of the defined contribution section of the Kier Group Pension Scheme as he joined the Group after 1 January 2002, therefore the disclosures above do not apply.

Directors' interests

The directors of the Company at 30 June 2007 had the following beneficial interest (including interests of dependent family members) in the Ordinary Shares of the Company:

	30 June 2007	1 July 2006 (or date of appointment)
P T Warry (chairman)	**7,843**	7,737
J Dodds (chief executive)	**304,561**	587,262
P F Berry (non-executive)	**6,650**	6,650
I M Lawson	**6,972**	3,893
S W Leathes (non-executive)	**10,000**	10,000
D E Mattar	**78,006**	68,795
M O'Farrell[1]	**–**	–
M P Sheffield	**22,362**	19,148
R W Side	**172,035**	168,299
R W Simkin	**290,799**	284,114
P M White (non-executive)	**1,540**	–

[1] The opening position of the interest of Mr M O'Farrell is shown as at 1 October 2006, being the date of his appointment.

Mr R W Side had a non-beneficial interest in 6,183 Ordinary Shares at 30 June 2007 (1 July 2006: 5,878).

In addition, the executive directors, as potential beneficiaries of the Kier Group 1999 Employee Benefit Trust, are deemed along with all other UK employees to have an interest in 633,653 (2006: 355,167) Ordinary Shares with a nominal value of £6,337 (2006: £3,552) representing 1.73% of the called up share capital of the Company, held by the Trust.

At 12 September 2007, the following directors had acquired beneficial interests in further Ordinary Shares: Mr J Dodds, 25 shares; Mr I M Lawson, 25 shares, Miss D E Mattar, 25 shares and Mr R W Side, 25 shares. There had been no changes in the interests of the other directors since 30 June 2007.

Directors' share options

Mr J Dodds, Mr I M Lawson, Miss D E Mattar and Mr M P Sheffield each held 302 Sharesave Scheme Options granted on 25 May 2007 at an exercise price of £25 per share. The Sharesave Scheme Options are, as for all company employees under the scheme, not subject to a performance condition. The options are exercisable from 1 July 2010 until 1 January 2011.

LTIP

Outstanding awards made to executive directors of the Company under the LTIP are in the form of a deferred right to acquire, at no cost, the following maximum number of Ordinary Shares in the Company:

	2005 award	2006 award	2007 award	Cumulative Total 30 June 2007	Cumulative Total 30 June 2006
J Dodds	33,798	24,647	21,786	80,231	80,357
I M Lawson	7,500	12,676	10,416	30,592	25,176
D E Mattar	24,141	17,605	12,731	54,477	58,479
M O'Farrell	7,500	5,500	9,722	22,722	18,000
M P Sheffield	7,500	12,676	10,416	30,592	25,176
R W Side	24,141	17,605	12,731	54,477	57,283
R W Simkin	23,068	16,549	11,805	51,422	53,959
Date of award	1 December 2004	3 October 2005	2 October 2006		
Share price	699p	1,065p	1,836p		
End of performance period	30 June 2007	30 June 2008	30 June 2009		

For the 2004 award which vested during the year, 25% of the award vests if earnings per share grow by at least 7.5% per annum compound over the performance period, increasing on a sliding scale to 100% vesting if growth is at least 25% per annum compound. For the 2005 award onwards, 25% of the award vests if earnings per share grows by at least 5% per annum in excess of inflation over the performance period, increasing on a sliding scale to 100% vesting if growth is at least 20% per annum in excess of inflation.

Directors' interests continued

For the three-year period ended 30 June 2006, earnings per share increased by 20.60% per annum compound. Accordingly, the directors received 79.01% of the 2004 award (granted on 1 October 2003 when the share price was 627.5p) and were entitled to receive a combination of shares, at no cost, and cash. Shares vested during the year in executive directors of the Company under the 2004 award of the LTIP, together with the cash element received, were:

	2004 award number	Shares lapsed number	Shares vested number	Received as shares number	Market price pence	Received as cash £	Total LTIP award £
J Dodds	21,912	4,600	17,312	10,214	1,836	130,319	317,848
I M Lawson	5,000	1,049	3,951	2,331	1,836	29,743	72,540
D E Mattar	16,733	3,512	13,221	7,800	1,836	99,530	242,738
M O'Farrell	5,000	1,049	3,951	–	1,836	72,540	72,540
M P Sheffield	5,000	1,049	3,951	2,331	1,836	29,743	72,540
R W Side	15,537	3,261	12,276	12,276	1,836	–	225,387
R W Simkin	14,342	3,011	11,331	6,685	1,836	85,301	208,038
							1,211,631
						2006:	565,971

For the three-year period ended 30 June 2007, earnings per share increased by 21.69% per annum in excess of inflation. Accordingly, the directors will receive 100% of the 2005 award and will be entitled to receive the number of shares set out below, at no cost, on 28 September 2007 on which income tax and national insurance will be payable.

	Number of shares
J Dodds	33,798
I M Lawson	7,500
D E Mattar	24,141
M O'Farrell	7,500
M P Sheffield	7,500
R W Side	24,141
R W Simkin	23,068

Approval of report

Mr P M White, chairman of the Remuneration Committee, will attend the forthcoming Annual General Meeting and will be available to answer any questions shareholders may have concerning the Group's policy on directors' remuneration. The directors' remuneration report will be submitted for approval by the Company at the forthcoming Annual General Meeting.

Signed on behalf of the Board

P M White
Chairman Remuneration Committee

Statement of directors’ responsibilities

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

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

The Group financial statements are required by law and IFRS to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

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

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

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

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

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

Independent auditors' report to the members of Kier Group plc

We have audited the group and parent company financial statements (the 'financial statements') of Kier Group plc for the year ended 30 June 2007 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the EU (IFRS), and for preparing the parent company financial statements and the directors' remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 44.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that information presented in the operating and financial review that is cross-referred from the business review section of the directors' report.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

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

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 30 June 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 June 2007;
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
12 September 2007

Consolidated income statement
for the year ended 30 June 2007

	Notes	2007 £m	2006 £m
Revenue			
Group and share of joint ventures	2	**2,127.9**	1,838.3
Less share of joint ventures		**(62.5)**	(55.1)
Group revenue		**2,065.4**	1,783.2
Cost of sales		**(1,874.6)**	(1,623.7)
Gross profit		**190.8**	159.5
Administrative expenses		**(115.9)**	(103.5)
Share of post tax profits from joint ventures	13	**3.0**	3.2
Profit from operations	2	**77.9**	59.2
Finance income	4	**6.9**	5.3
Finance cost	4	**(7.2)**	(5.4)
Profit before tax	2	**77.6**	59.1
Income tax	8a	**(21.3)**	(16.2)
Profit for the year		**56.3**	42.9
Attributable to:			
Equity holders of the parent		**55.5**	42.9
Minority interests	11	**0.8**	–
		56.3	42.9
Earnings per share	10		
– basic		**155.0p**	120.8p
– diluted		**152.9p**	118.8p
Underlying earnings per share (excluding the amortisation of intangible assets)			
– basic		**158.9p**	124.8p
– diluted		**156.7p**	122.7p

Consolidated statement of recognised income and expense
for the year ended 30 June 2007

	Notes	2007 £m	2006 £m
Foreign exchange translation differences		**(0.4)**	(0.3)
Fair value movements in cash flow hedging instruments		**13.1**	4.1
Actuarial gains on defined benefit pension schemes	7	**22.5**	30.0
Deferred tax on items recognised directly in equity	8b	**(12.1)**	(10.2)
Income and expense recognised directly in equity		**23.1**	23.6
Profit for the year		**56.3**	42.9
Total recognised income and expense for the year	22	**79.4**	66.5
Change in accounting policy			
Effect of adoption of IAS 32 and IAS 39 on 1 July 2005 on cash flow hedge reserve		**–**	(7.5)
Deferred tax on above		**–**	2.2
		79.4	61.2
Attributable to:			
Equity holders of the parent		**78.6**	61.2
Minority interests		**0.8**	–
		79.4	61.2

Consolidated balance sheet
at 30 June 2007

	Notes	2007 £m	2006 £m
Non-current assets			
Intangible assets	11	**13.6**	14.8
Property, plant and equipment	12	**83.4**	78.5
Investment in joint ventures	13	**40.7**	20.8
Retirement benefit surplus	7	**6.8**	6.8
Deferred tax assets	14	**8.7**	20.9
Other financial assets	25	**0.2**	0.6
Trade and other receivables	17	**10.3**	16.1
Non-current assets		**163.7**	158.5
Current assets			
Inventories	15	**460.1**	377.8
Other financial assets	25	**0.3**	0.6
Trade and other receivables	17	**319.4**	258.4
Cash and cash equivalents	18	**178.6**	141.3
Current assets		**958.4**	778.1
Total assets		**1,122.1**	936.6
Current liabilities			
Trade and other payables	19	**(791.8)**	(670.5)
Tax liabilities		**(3.4)**	(2.7)
Provisions	20	**(2.4)**	(0.9)
Current liabilities		**(797.6)**	(674.1)
Non-current liabilities			
Long-term borrowings	18	**(30.2)**	(30.1)
Trade and other payables	19	**(50.0)**	(36.8)
Retirement benefit obligations	7	**(30.6)**	(67.0)
Provisions	20	**(20.2)**	(18.1)
Deferred tax liabilities	14	**(10.5)**	(2.0)
Non-current liabilities		**(141.5)**	(154.0)
Total liabilities		**(939.1)**	(828.1)
Net assets	2	**183.0**	108.5
Equity			
Share capital	21	**0.4**	0.4
Share premium	22	**27.0**	20.0
Capital redemption reserve	22	**2.7**	2.7
Retained earnings	22	**145.7**	88.0
Cash flow hedge reserve	22	**7.0**	(2.4)
Translation reserve	22	**(0.6)**	(0.2)
Equity attributable to equity holders of the parent		**182.2**	108.5
Minority interests	11	**0.8**	–
Total equity		**183.0**	108.5

The financial statements were approved by the Board of directors on 12 September 2007 and were signed on its behalf by:

J Dodds
D E Mattar
Directors

Consolidated cash flow statement
for the year ended 30 June 2007

	Notes	2007 £m	2006 £m
Cash flows from operating activities			
Profit before tax		**77.6**	59.1
Adjustments			
Share of post tax profits from joint ventures	13	**(3.0)**	(3.2)
Normal contributions to pension fund in excess of pension charge		**(2.9)**	(0.2)
Share-based payments charge	23	**3.9**	1.1
Amortisation of intangible assets	11	**2.0**	1.9
Depreciation charges	12	**15.0**	13.5
Profit on disposal of property, plant & equipment		**(0.7)**	(1.1)
Net finance cost	4	**0.3**	0.1
Operating cash flows before movements in working capital		**92.2**	71.2
Special contributions to pension fund		**(11.0)**	(31.5)
Increase in inventories		**(20.1)**	(49.3)
Increase in receivables		**(54.4)**	(26.7)
Increase in payables		**104.9**	131.8
Increase in provisions		**3.2**	1.1
Cash inflow from operating activities		**114.8**	96.6
Dividends received from joint ventures	13	**0.6**	1.3
Interest received		**6.8**	5.3
Income taxes paid		**(16.9)**	(11.3)
Net cash generated from operating activities		**105.3**	91.9
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		**1.5**	4.6
Proceeds from sale of investments		**–**	1.4
Purchases of property, plant & equipment		**(19.7)**	(23.2)
Acquisition of subsidiaries, including net borrowings acquired	28	**(28.0)**	(10.1)
Investment in joint ventures	13	**(7.7)**	(0.6)
Net cash used in investing activities		**(53.9)**	(27.9)
Cash flows from financing activities			
Proceeds from the issue of share capital		**3.1**	–
Purchase of own shares		**(8.7)**	(2.0)
Interest paid		**(2.6)**	(2.7)
Dividends paid		**(5.9)**	(6.2)
Net cash used in financing activities		**(14.1)**	(10.9)
Increase in cash and cash equivalents		**37.3**	53.1
Opening cash and cash equivalents		**141.3**	88.2
Closing cash and cash equivalents		**178.6**	141.3
Reconciliation of net cash flow to movement in net funds			
Increase in cash and cash equivalents		**37.3**	53.1
Increase in long-term borrowings		**(0.1)**	–
Opening net funds		**111.2**	58.1
Closing net funds		**148.4**	111.2
Net funds consist of:			
Cash and cash equivalents		**178.6**	141.3
Long-term borrowings		**(30.2)**	(30.1)
Net funds	18	**148.4**	111.2

1. Significant accounting policies

Kier Group plc (the Company) is a company domiciled in the United Kingdom (UK). The consolidated financial statements of the Company for the year ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

The consolidated financial statements were approved by the directors on 12 September 2007.

Statement of compliance

The Group's consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (GAAP). These are presented on pages 74 to 77.

Basis of preparation

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

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

At the date of issue of these financial statements the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IAS 23	Amendments to borrowing costs.
IFRS 7	Financial Instruments: Disclosures: and the related amendments to IAS1 'Presentation of Financial Statements' on capital disclosures.
IFRS 8	Operating segments.
IFRIC 10	Interim financial reporting and impairment.
IFRIC 11	IFRS 2 – Group and treasury share transactions.
IFRIC 12	Service concession arrangements.
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction.

The Group has considered the impact of these new standards and interpretations in future periods and no significant impact is expected. The Group has chosen not to early adopt any of the above standards and interpretations.

In respect of IFRIC 12 'Service concession arrangements' which has not yet been endorsed by the EU, the Group has continued to recognise the FRS 5 'Reporting the substance of transactions' finance debtors relating to concession arrangements held by PFI joint ventures at amortised cost as defined by IAS 39 'Financial Instruments: Recognition and Measurement.' The effect of adopting this policy is to maintain the accounting within PFI joint ventures in line with existing UK GAAP (with the exception of the treatment of interest rate derivatives under IAS 39), while ensuring that the accounting treatment complies with existing IFRS. The Group does not expect the change in accounting policy to have a significant effect when the interpretation becomes mandatory for the accounting period commencing 1 July 2008.

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 2007. 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. The purchase method is used to account for the acquisition of subsidiaries.

(b) Joint ventures

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

The Group's interests in jointly controlled entities are accounted for using the equity method. Under this method the Group's share of the profits less losses, of jointly controlled entities is included in the consolidated income statement and its interest in their net assets is included in investments in the consolidated balance sheet. Where the share of losses exceeds the Group's interest in the entity and there is no obligation to fund these losses the carrying amount is reduced to nil and recognition of further losses is discontinued, future profits are not recognised until unrecognised losses are extinguished. Interest in the entity is the carrying amount of the investment together with any long-term interests that, in substance, form part of the net investment in the entity.

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

Goodwill and other intangible assets

Goodwill arising on consolidation represents the excess of the cost of acquisition 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 amounts 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 are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to cost of sales in the income statement on a straight line basis over the relevant contract period.

1. Significant accounting policies continued

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) 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.

b) 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.

(c) Construction contracts
Revenue arises from increases in valuations on contracts and includes the Group's share of revenue from joint arrangements, and goods and services provided.

Revenue is normally determined by external valuations and 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 and may not relate directly to revenue. The principal estimation technique used by the Group in attributing profit on contracts to a particular period is the preparation of forecasts on a contract-by-contract basis. These focus on revenues and costs to complete and enable an assessment to be made of the final out-turn on each contract. Consistent contract review procedures are in place in respect of contract forecasting.

The general principles for profit recognition are:

- Profits on short duration contracts (generally less than 12 months) are taken when the contract is complete;

- Profits on other contracts are recognised on a percentage of completion basis when the contract's outcome can be foreseen with reasonable certainty;

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

- 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 but only to the extent that there is reasonable assurance of recovery.

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

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, external costs incurred from that date to the date of financial close are carried forward in the balance sheet.

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

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

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

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

Leases
Operating lease rental charges are charged to the income statement on a straight line basis over the life of each lease.

Employee benefits
(a) Retirement benefit obligations
For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due.

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

The retirement benefit obligation represents the difference between the fair value of scheme assets and the present value of scheme liabilities. It is determined bi-annually by independent actuaries and recognised in full in the balance sheet. Differences between the actual

1. Significant accounting policies continued

and expected returns on assets and experience gains and losses arising on scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in full directly in reserves via the statement of recognised income and expense in the year. In accordance with the transitional provisions of IFRS 1 'First-time Adoption of International Financial Reporting Standards' cumulative actuarial gains and losses at 1 July 2004 were presented within the opening retained earnings reserve at that date.

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

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

(b) Share-based payments

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

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

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

Finance income and costs

Interest receivable and payable on bank deposits is credited or charged to the income statement as incurred.

Borrowing costs are capitalised where the Group constructs qualifying assets and has separately identifiable funding. 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.

Infrequently, a long-term land creditor arises for a parcel or parcels of land where the Group has exchanged unconditional contracts, and so recognised the creditor and the land inventory, but in practice does not have title or access to the land. In these few cases the notional interest payable already charged to finance costs is then credited to finance costs and added to the cost of inventory in accordance with IAS23 'Borrowing Costs' and IAS2 'Inventories'. In no circumstances will the cost of such land inventory exceed the contracted sum payable.

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 amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Foreign currencies

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

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

In accordance with the transitional provisions of IFRS 1 the Group has elected to set the previously accumulated translation differences relating to investments in overseas subsidiary undertakings to nil at 1 July 2004.

Mining assets

Opencast expenditure incurred prior to the commencement of operating opencast sites is capitalised and the cost less the residual value is depreciated over the coaling life of the site on a coal extraction basis. The total cost of restoration is recognised as a provision as soon as the mine becomes operational. 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 interest 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.

Inventories

Inventories and work in progress, including land held for and in the course of development, are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, labour and production overheads which have been incurred in bringing the inventories and work in progress to their present location and condition. Cost in certain circumstances also

1. Significant accounting policies continued

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.

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

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

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

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

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

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

(b) Cash and cash equivalents
Cash and cash equivalents in the cash flow statements 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 loans are recorded at 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) 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 is dependent on whether the derivative is designated as an effective hedging instrument.

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, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

The Group also 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, relate to revenue and profit recognition and the valuation of defined pension scheme assets and liabilities.

Revenue and profit recognition
Details on the estimation techniques used for revenue and profit recognition in respect of private housing and land sales, property development and construction contracts are given on page 51.

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 7.

2 Segmental reporting

For management purposes the Group is organised into five operating divisions, Construction, Support Services, Homes, Property and Infrastructure Investment. These divisions are the basis on which the Group reports its primary segmental information.

Year to 30 June 2007	Construction £m	Support Services £m	Homes £m	Property £m	Infrastructure Investment £m	Centre £m	Group £m
Revenue							
Group and share of joint ventures	**1,411.2**	**315.5**	**325.1**	**61.3**	**14.8**	**–**	**2,127.9**
Less share of joint ventures	–	–	–	(48.7)	(13.8)	–	**(62.5)**
Group revenue	1,411.2	315.5	325.1	12.6	1.0	–	**2,065.4**
Profit							
Group operating profit	21.9	10.2	47.4	6.9	(1.1)	(10.4)	**74.9**
Share of joint ventures' operating profit	–	–	0.4	5.2	1.7	–	**7.3**
Group and share of joint ventures	**21.9**	**10.2**	**47.8**	**12.1**	**0.6**	**(10.4)**	**82.2**
Share of joint ventures – finance cost	–	–	–	(1.7)	(1.2)	–	**(2.9)**
– tax	–	–	(0.1)	(1.1)	(0.2)	–	**(1.4)**
Profit from operations	**21.9**	**10.2**	**47.7**	**9.3**	**(0.8)**	**(10.4)**	**77.9**
Finance income/(cost)	16.2	0.3	(14.9)	(1.7)	1.5	(1.7)	**(0.3)**
Profit before tax	**38.1**	**10.5**	**32.8**	**7.6**	**0.7**	**(12.1)**	**77.6**
Balance sheet							
Investment in joint ventures	–	–	–	26.0	14.7	–	**40.7**
Other assets	325.2	95.0	418.8	35.9	0.6	27.3	**902.8**
Total liabilities	(603.0)	(96.4)	(123.3)	(4.5)	(4.8)	(76.9)	**(908.9)**
Net operating assets/(liabilities)	(277.8)	(1.4)	295.5	57.4	10.5	(49.6)	**34.6**
Cash, net of debt	361.2	15.8	(163.9)	(36.8)	(7.6)	(20.3)	**148.4**
Net assets	**83.4**	**14.4**	**131.6**	**20.6**	**2.9**	**(69.9)**	**183.0**
Other information							
Inter-segmental revenue	32.0	27.4	–	0.2	–	–	**59.6**
Amortisation of intangible assets	–	2.0	–	–	–	–	**2.0**
Capital expenditure	3.6	12.5	0.6	3.1	–	0.8	**20.6**
Depreciation of property, plant and equipment	6.9	6.5	0.6	–	–	1.0	**15.0**

On 29 September 2006 Kier Residential Limited issued £50.0m of shares to Kier Group plc as part of the refinancing of the Homes division. This has increased the net assets of the Homes division with a corresponding reduction in the Centre and no overall impact on the Group.

2 Segmental reporting continued

Year to 30 June 2006	Construction £m	Support Services £m	Homes £m	Property £m	Infrastructure Investment £m	Centre £m	Group £m
Revenue							
Group and share of joint ventures	1,218.1	281.3	277.9	47.5	13.5	–	1,838.3
Less share of joint ventures	(2.6)	–	–	(40.0)	(12.5)	–	(55.1)
Group revenue	1,215.5	281.3	277.9	7.5	1.0	–	1,783.2
Profit							
Group operating profit	17.2	6.8	41.6	4.2	(2.1)	(11.7)	56.0
Share of joint ventures' operating profit	0.8	–	–	5.0	1.4	–	7.2
Group and share of joint ventures	18.0	6.8	41.6	9.2	(0.7)	(11.7)	63.2
Share of joint ventures – finance cost	–	–	–	(2.1)	(0.5)	–	(2.6)
– tax	(0.1)	–	–	(0.8)	(0.5)	–	(1.4)
Profit from operations	17.9	6.8	41.6	6.3	(1.7)	(11.7)	59.2
Finance income/(cost)	13.7	(0.5)	(13.1)	(0.9)	1.2	(0.5)	(0.1)
Profit before tax	31.6	6.3	28.5	5.4	(0.5)	(12.2)	59.1
Balance sheet							
Investment in joint ventures	–	–	–	21.7	(0.9)	–	20.8
Other assets	281.3	77.3	351.1	22.9	0.8	41.1	774.5
Total liabilities	(496.6)	(78.2)	(112.3)	(5.2)	(3.2)	(102.5)	(798.0)
Net operating assets/(liabilities)	(215.3)	(0.9)	238.8	39.4	(3.3)	(61.4)	(2.7)
Cash, net of debt	298.7	12.5	(165.8)	(23.8)	(3.8)	(6.6)	111.2
Net assets	83.4	11.6	73.0	15.6	(7.1)	(68.0)	108.5
Other information							
Inter-segmental revenue	8.1	21.4	–	7.3	–	–	36.8
Amortisation of intangible assets	–	1.9	–	–	–	–	1.9
Capital expenditure	11.9	5.6	3.0	1.3	–	0.7	22.5
Depreciation of property, plant and equipment	5.7	6.3	0.5	–	–	1.0	13.5

Inter-segmental pricing is determined on an arm's length basis.

As the Group's activities are primarily within the UK, no geographical segmental analysis is required.

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

3. Profit for the year

Profit before taxation is stated after charging:

	2007 £m	2006 £m
Auditors remuneration:		
Fees payable to the Company's auditor for the audit of the annual accounts	**0.1**	0.1
Fees payable to the Company's auditor for other services:		
Audit of the Company's subsidiaries, pursuant to legislation	**0.6**	0.5
Taxation services	**0.1**	–
Other services, pursuant to legislation	**0.1**	–
Hire of plant and machinery	**28.0**	18.0
Operating lease rentals:		
Land and buildings	**3.2**	2.6
Plant and machinery	**7.7**	9.4

4. Finance income and cost

	2007 £m	2006 £m
Finance income		
Interest receivable	**6.9**	5.3
Finance cost		
Interest payable on bank overdrafts and loans	**(0.6)**	(0.8)
Interest payable on long-term borrowings	**(2.0)**	(2.0)
Unwinding of discount on long-term liabilities	**(4.6)**	(2.6)
	(7.2)	(5.4)

5. Information relating to employees

	Note	2007 No	2006 No
Average number of persons employed during the year including executive directors was:			
United Kingdom		**8,240**	7,465
Rest of world		**1,185**	1,251
		9,425	8,716
		£m	£m
Group staff costs are as follows:			
United Kingdom		**294.9**	260.1
Rest of world		**9.6**	9.2
		304.5	269.3
Wages and salaries		**258.0**	222.1
Social security costs		**24.8**	21.6
Other pension costs		**18.4**	21.9
Share-based payment plans	23	**3.3**	3.7
		304.5	269.3

6. Information relating to directors

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 39 to 43.

7. Retirement benefit obligations

Kier operates a number of pension schemes for eligible employees as disclosed below.

Kier Group Pension Scheme

This is the principal Scheme and includes a defined benefit section and a defined contribution plan. The assets of the Scheme are held under trust separately from those of the Group; the Trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers.

The defined benefit section of the Scheme was closed to new entrants on 1 January 2002, existing members continue to accrue benefits for future service.

An actuarial valuation of the Scheme was undertaken by the Trustees' independent actuaries as at 1 April 2005 using the projected unit method. The market value of the Schemes' assets at that date were £369.8m which represented approximately 82% of the benefits that had accrued to members at that date, after allowing for future increases in salaries. The contributions paid during the year were £24.0m (2006: £46.5m) which include special contributions of £11.0m (2006: £31.5m).

Going forward contributions will include an allowance for funding the past service deficit identified at the 2005 valuation date not covered by the above special contributions over a 10-year period to March 2016. The Group expects to pay contributions for future service of £12.6m being 19.1% of pensionable pay plus £6.0m for funding the past service deficit in the year to June 2008.

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

Following closure of the defined benefit section of the Scheme to new entrants most new employees are offered membership of the defined contribution section of the Kier Group Pension Scheme. The Group is required to pay contributions in respect of those employees in accordance with the rates specified in their contracts of employment. The contributions paid during the year and the pension charge, amounted to £3.9m (2006: £2.6m).

Kier Sheffield LLP

Kier participates in this defined benefits scheme through its subsidiary Kier Sheffield LLP which has participated as an admitted body in the South Yorkshire Pension Fund since 1 April 2003. As an admitted body it was granted a fully funded past service position at that date, with assets and ongoing past service liabilities of £65.0m.

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

Kier Sheffield LLP's pension costs in respect of the defined benefit scheme are assessed on the advice of an independent qualified actuary using the project unit method. The contributions paid during the year were £1.6m (2006: £2.1m). Going forward Kier Sheffield LLP expects to pay contributions for future service at the rate of 11.5% of pensionable pay which the funds actuary has determined is sufficient to meet ongoing benefits.

Other Schemes

Contributions are also made in respect of hourly paid operatives to an industry-wide stakeholder pension scheme, and in respect of employees who are members of a local government pension scheme. The pension costs for these have been taken as the actual contributions paid over the year.

7. Retirement benefit obligations continued

IAS 19 'Employee Benefits' disclosures

Kier has adopted immediate recognition of any actuarial gains or losses through the statement of recognised income and expense as permitted under IAS 19.

The principal assumptions used by the independent qualified actuaries and the expected rate of return on assets in providing the IAS 19 position as detailed below were:

Kier Group Pension Scheme

	2007 %	2006 %	2005 %
Rate of general increases in salaries	**4.7**	4.3	4.0
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.2**	2.8	2.5
Discount rate	**5.9**	5.3	5.0
Inflation rate	**3.2**	2.8	2.5

The mortality assumptions adopted estimate life expectancies from age 60 for men and women of 25.6 years and 28.3 years respectively.

	Long-term rate of return expected			Value		
	2007 %	2006 %	2005 %	**2007 £m**	2006 £m	2005 £m
Equities	**8.3**	7.8	7.5	**307.5**	238.2	195.0
Corporate bonds	**5.5**	5.0	4.8	**120.7**	170.4	144.5
Government bonds	**5.0**	4.5	4.3	**78.5**	58.4	54.0
Total market value of assets				**506.7**	467.0	393.5
Present value of liabilities				**(537.3)**	(534.0)	(517.2)
Deficit				**(30.6)**	(67.0)	(123.7)
Related deferred tax asset				**8.7**	20.1	37.1
Net pension liability				**(21.9)**	(46.9)	(86.6)

Kier Sheffield LLP

	2007 %	2006 %	2005 %
Rate of general increases in salaries	**4.7**	4.3	4.0
Rate of increase to pensions in payment liable for Limited Price Indexation	**3.2**	2.8	2.5
Discount rate	**5.9**	5.3	5.0
Inflation rate	**3.2**	2.8	2.5

The mortality assumptions adopted estimate life expectancies from age 60 for men and women of 25.6 years and 28.3 years respectively.

	Long-term rate of return expected			Value		
	2007 %	2006 %	2005 %	**2007 £m**	2006 £m	2005 £m
Equities	**8.3**	7.8	7.5	**106.6**	90.2	75.7
Corporate bonds	**5.5**	5.0	4.8	**8.4**	9.3	7.2
Government bonds	**5.0**	4.5	4.3	**21.7**	19.8	19.5
Total market value of assets				**136.7**	119.3	102.4
Present value of liabilities				**(124.8)**	(112.5)	(100.6)
Surplus				**11.9**	6.8	1.8
Restriction on pension surplus				**(5.1)**	–	–
				6.8	6.8	1.8
Related deferred tax liability				**(1.9)**	(2.0)	(0.5)
Net pension asset				**4.9**	4.8	1.3

The gross surplus of this scheme under IAS 19 as calculated by the independent qualified actuaries at 30 June 2007 was £11.9m. Within these financial statements only £6.8m of this surplus has been recognised as a pension asset, being the present value of the economic benefit available in the form of reductions in future contributions to the plan.

7. Retirement benefit obligations continued

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

	2007 Kier Group Pension Scheme £m	2007 Kier Sheffield LLP £m	2007 Total £m	2006 Kier Group Pension Scheme £m	2006 Kier Sheffield LLP £m	2006 Total £m
(Charged)/credited to operating profit in the income statement						
Current service cost	**(12.6)**	**(2.8)**	**(15.4)**	(14.9)	(2.7)	(17.6)
Past service cost	**–**	**(0.1)**	**(0.1)**	(0.1)	1.1	1.0
Expected return on scheme assets	**29.3**	**8.4**	**37.7**	23.5	6.9	30.4
Interest cost on scheme liabilities	**(28.0)**	**(5.9)**	**(33.9)**	(25.6)	(5.1)	(30.7)
	(11.3)	**(0.4)**	**(11.7)**	(17.1)	0.2	(16.9)
Amount recognised in statement of recognised income and expense						
Actual return less expected return on assets	**1.7**	**7.8**	**9.5**	19.3	8.3	27.6
Experience gains and losses arising on liabilities	**22.0**	**(3.9)**	**18.1**	8.0	(5.6)	2.4
Restriction on pension surplus	**–**	**(5.1)**	**(5.1)**	–	–	–
	23.7	**(1.2)**	**22.5**	27.3	2.7	30.0
Changes in the fair value of scheme assets						
Fair value at 1 July	**467.0**	**119.3**	**586.3**	393.5	102.4	495.9
Expected return on scheme assets	**29.3**	**8.4**	**37.7**	23.5	6.9	30.4
Actual return less expected return on scheme assets	**1.7**	**7.8**	**9.5**	19.3	8.3	27.6
Contributions by the employer	**24.0**	**1.6**	**25.6**	46.5	2.1	48.6
Contributions by scheme participants	**0.1**	**1.0**	**1.1**	0.1	1.0	1.1
Net benefits paid out	**(15.4)**	**(1.4)**	**(16.8)**	(15.9)	(1.4)	(17.3)
Fair value at 30 June	**506.7**	**136.7**	**643.4**	467.0	119.3	586.3
Changes in the present value of the defined benefit obligation						
Fair value at 1 July	**(534.0)**	**(112.5)**	**(646.5)**	(517.2)	(100.6)	(617.8)
Current service cost	**(12.6)**	**(2.8)**	**(15.4)**	(14.9)	(2.7)	(17.6)
Past service cost	**–**	**(0.1)**	**(0.1)**	(0.1)	1.1	1.0
Interest cost on scheme liabilities	**(28.0)**	**(5.9)**	**(33.9)**	(25.6)	(5.1)	(30.7)
Experience gains and losses on scheme liabilities	**22.0**	**(3.9)**	**18.1**	8.0	(5.6)	2.4
Contributions by scheme participants	**(0.1)**	**(1.0)**	**(1.1)**	(0.1)	(1.0)	(1.1)
Net benefits paid out	**15.4**	**1.4**	**16.8**	15.9	1.4	17.3
Present value at 30 June	**(537.3)**	**(124.8)**	**(662.1)**	(534.0)	(112.5)	(646.5)
Amounts included in the balance sheet						
Fair value of scheme	**506.7**	**136.7**	**643.4**	467.0	119.3	586.3
Net present value of the defined benefit obligation	**(537.3)**	**(124.8)**	**(662.1)**	(534.0)	(112.5)	(646.5)
Net (deficit)/surplus	**(30.6)**	**11.9**	**(18.7)**	(67.0)	6.8	(60.2)
Restriction on pension surplus	**–**	**(5.1)**	**(5.1)**	–	–	–
	(30.6)	**6.8**	**(23.8)**	(67.0)	6.8	(60.2)
Related deferred tax asset/(liability)	**8.7**	**(1.9)**	**6.8**	20.1	(2.0)	18.1
Net pension (liability)/asset	**(21.9)**	**4.9**	**(17.0)**	(46.9)	4.8	(42.1)

7. Retirement benefit obligations continued

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

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Fair value of scheme assets	**643.4**	586.3	495.9	408.9	292.7
Net present value of the defined benefit obligation	**(662.1)**	(646.5)	(617.8)	(495.8)	(406.5)
Restriction on pension surplus	**(5.1)**	–	–	–	–
Net deficit	**(23.8)**	(60.2)	(121.9)	(86.9)	(113.8)
Related deferred tax asset	**6.8**	18.1	36.6	26.1	34.1
Net pension liability	**(17.0)**	(42.1)	(85.3)	(60.8)	(79.7)
Difference between expected and actual return on assets	**9.5**	27.6	41.6	15.1	(28.5)
Experience gains and losses on scheme liabilities	**18.1**	2.4	(83.1)	8.2	(17.4)

It is not practical to produce figures for 2003 and 2004 in accordance with IAS 19. The figures included for these years are as originally published and calculated under UK GAAP (FRS 17 'Retirement Benefits') which it is considered would not be materially different under IAS 19.

8. Income tax

a) Recognised in the income statement

	2007 £m	2006 £m
Current tax expense		
UK corporation tax	**16.1**	7.6
Overseas tax	**1.5**	0.8
Adjustments for prior years	**(0.5)**	(3.9)
Total current tax	**17.1**	4.5
Deferred tax expense		
Origination and reversal of temporary differences	**4.1**	7.2
Effect of change in tax rate	**(1.0)**	–
Adjustments for prior years	**1.1**	4.5
Total deferred tax	**4.2**	11.7
Total income tax expense in the income statement	**21.3**	16.2
Reconciliation of effective tax rate		
Profit before tax	**77.6**	59.1
Add: tax on joint ventures	**1.4**	1.4
Underlying profit before tax	**79.0**	60.5
Income tax at UK corporation tax rate of 30%	**23.7**	18.2
Non-deductible expenses	**1.7**	0.5
Tax reliefs on expenses not recognised in the income statement	**(2.6)**	(1.4)
Rate change effect on deferred tax	**(1.0)**	–
Profits attributable to minority interest not taxable	**(0.2)**	–
Effect of tax rates in foreign jurisdictions	**0.3**	–
Under provision in respect of prior years	**0.8**	0.3
Total tax (including joint ventures)	**22.7**	17.6
Tax on joint ventures	**(1.4)**	(1.4)
Group income tax expense	**21.3**	16.2

8. Income tax continued

b) Recognised in the statement of recognised income and expense

	2007 £m	2006 £m
Deferred tax expense		
Fair value movements on cash flow hedging instruments:		
Group	**(0.2)**	–
Joint ventures	**3.9**	1.2
Actuarial gains on defined benefit pension schemes	**8.4**	9.0
Total income tax expense in the statement of recognised income and expense	**12.1**	10.2

Included within the above charge is £1.5m (2006: nil) arising from the effect of the change in the rate of UK corporation tax from 30% to 28% in April 2008.

c) Tax losses

At the balance sheet date the Group has unused tax losses of £10.6m (2006: £11.2m) available for offset against future profits. This is made up of £6.8m (2006: £7.3m) of income losses and £3.8m (2006: £3.9m) of capital losses. A deferred tax asset has been recognised in respect of £2.9m (2006: £3.4m) of income 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.

9. Dividends

Amounts recognised as distributions to equity holders in the year.

	2007 £m	2006 £m
Final dividend for the year ended 30 June 2006 of 17.8 pence (2005: 15.2 pence)	**6.3**	5.4
Interim dividend for the year ended 30 June 2007 of 9.6 pence (2006: 8.2 pence)	**3.5**	2.9
	9.8	8.3

The proposed final dividend of 40.4 pence (2006: 17.8 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £14.6m will be paid on 4 December 2007 to shareholders on the register at the close of business on 28 September 2007. A scrip dividend alternative will be offered.

10. Earnings per share

A reconciliation of profit and earnings per share, as reported in the income statement, to underlying and adjusted profit and earnings per share is set out below. The adjustments are made to illustrate the impact of the amortisation of intangible assets.

	2007		2006	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**55.5**	**55.5**	42.9	42.9
Add: amortisation of intangible assets	**2.0**	**2.0**	1.9	1.9
Less: tax on amortisation of intangible assets	**(0.6)**	**(0.6)**	(0.5)	(0.5)
Adjusted earnings	**56.9**	**56.9**	44.3	44.3
	million	**million**	million	million
Weighted average number of shares	**35.8**	**35.8**	35.5	35.5
Weighted average number of unexercised options – dilutive effect	**–**	**–**	–	0.3
Weighted average impact of LTIP	**–**	**0.5**	–	0.3
Weighted average number of shares used for earnings per share	**35.8**	**36.3**	35.5	36.1
	pence	**pence**	pence	pence
Earnings per share	**155.0**	**152.9**	120.8	118.8
Adjusted earnings per share (excluding the amortisation of intangible assets)	**158.9**	**156.7**	124.8	122.7

11. Intangible assets

	Goodwill £m	Contract rights £m	Total £m
Cost			
At 1 July 2006	5.2	15.8	21.0
Additions	–	0.8	0.8
At 30 June 2007	**5.2**	**16.6**	**21.8**
Amortisation			
At 1 July 2006	–	6.2	6.2
Charge for the year	–	2.0	2.0
At 30 June 2007	**–**	**8.2**	**8.2**
Net book value			
At 30 June 2007	**5.2**	**8.4**	**13.6**
At 30 June 2006	5.2	9.6	14.8
Cost			
At 1 July 2005 and 30 June 2006	5.2	15.8	21.0
Amortisation			
At 1 July 2005	–	4.3	4.3
Charge for the year	–	1.9	1.9
At 30 June 2006	–	6.2	6.2
Net book value			
At 30 June 2006	5.2	9.6	14.8
At 30 June 2005	5.2	11.5	16.7

Goodwill relates to the acquisition of Kier Partnership Homes Limited in 2002. This balance has been subject to an annual impairment review but continues to be maintained at the 30 June 2004 carrying value.

Contract rights relate to the acquisition by the Group of the business and assets of the construction and building services operations of Sheffield City Council (£15.8m), and Harlow Council (£0.8m). These are being amortised on a straight line basis over the remaining lives of the contracts. These contracts are in partnership with the respective councils who retain the rights for a minority share of the profits. These profit shares are reflected in the income statement as attributable to minority interests. The amount payable to Sheffield City Council for the year to June 2007 was £0.8m (2006: £nil), no amounts have as yet been paid to Harlow Council.

12. Property, plant and equipment

	Land and buildings £m	Plant, vehicles and fixtures £m	Mining assets £m	Total £m
Cost				
At 1 July 2006	34.1	78.5	19.1	131.7
Additions	3.9	16.7	–	20.6
Acquired on acquisitions	–	0.2	–	0.2
Disposals	–	(6.1)	–	(6.1)
Currency realignments	–	(0.4)	–	(0.4)
At 30 June 2007	**38.0**	**88.9**	**19.1**	**146.0**
Accumulated depreciation				
At 1 July 2006	1.3	44.7	7.2	53.2
Charge for the year	0.6	10.6	3.8	15.0
Disposals	–	(5.3)	–	(5.3)
Currency realignment	–	(0.3)	–	(0.3)
At 30 June 2007	**1.9**	**49.7**	**11.0**	**62.6**
Net book value				
At 30 June 2007	**36.1**	**39.2**	**8.1**	**83.4**
At 30 June 2006	32.8	33.8	11.9	78.5
Cost				
At 1 July 2005	27.5	76.9	19.0	123.4
Additions	12.4	10.0	0.1	22.5
Reclassifications	(2.8)	–	–	(2.8)
Disposals	(3.0)	(8.3)	–	(11.3)
Currency realignments	–	(0.1)	–	(0.1)
At 30 June 2006	34.1	78.5	19.1	131.7
Accumulated depreciation				
At 1 July 2005	1.0	42.7	3.9	47.6
Charge for the year	0.3	9.9	3.3	13.5
Disposals	–	(7.8)	–	(7.8)
Currency realignment	–	(0.1)	–	(0.1)
At 30 June 2006	1.3	44.7	7.2	53.2
Net book value				
At 30 June 2006	32.8	33.8	11.9	78.5
At 30 June 2005	26.5	34.2	15.1	75.8

13. Investment in joint ventures

a) Movements in year

	2007 £m	2006 £m
Investment in joint ventures		
At 1 July	**20.8**	22.9
Additions	**7.9**	0.6
Disposals and loan repayments	**(0.2)**	(1.4)
Share of profit after taxation	**3.0**	3.2
Net income/(expense) recognised directly in equity	**13.7**	(4.5)
Deferred tax on items recognised directly in equity	**(3.9)**	1.3
Dividends received	**(0.6)**	(1.3)
At 30 June	**40.7**	20.8

b) Analysis of investment

	2007 Kier Developments Limited £m	2007 Prospect Healthcare (Hairmyres) Limited £m	2007 Other joint ventures £m	2007 Total £m	2006 Total £m
Investment in joint ventures					
Property, plant and equipment	**6.7**	**–**	**–**	**6.7**	4.5
Deferred tax assets	**–**	**–**	**0.4**	**0.4**	0.5
Other financial assets	**0.4**	**0.2**	**8.9**	**9.5**	–
Current assets	**68.2**	**45.0**	**178.9**	**292.1**	260.4
Gross assets	**75.3**	**45.2**	**188.2**	**308.7**	265.4
Payables – current	**(7.8)**	**(1.9)**	**(11.0)**	**(20.7)**	(12.8)
Payables – non-current	**(60.7)**	**(50.6)**	**(171.3)**	**(282.6)**	(259.7)
Net external assets/(liabilities)	**6.8**	**(7.3)**	**5.9**	**5.4**	(7.1)
Loans provided to joint ventures	**20.3**	**4.3**	**10.7**	**35.3**	27.9
Total investment in joint ventures	**27.1**	**(3.0)**	**16.6**	**40.7**	20.8

The liabilities of the joint ventures are without recourse to the Group. The carrying value of the investment in Prospect Healthcare (Hairmyres) Limited is a negative balance after adjusting for an unrealised refinancing gain. Details of the Group's interest in joint ventures are given on page 79.

14. 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.

	Property plant and equipment £m	Short-term temporary differences £m	Retirement benefit obligations £m	Tax losses £m	Total £m
At 1 July 2005	(2.0)	2.5	36.6	1.2	38.3
Charge to income	(1.0)	(1.0)	(9.5)	(0.2)	(11.7)
Charge direct to recognised income and expense	–	(0.3)	(9.0)	–	(9.3)
Share-based payments credited to equity	–	1.6	–	–	1.6
At 30 June 2006	(3.0)	2.8	18.1	1.0	18.9
Acquired on acquisition	(0.1)	(10.9)	–	–	(11.0)
Charge to income	0.3	(1.4)	(2.9)	(0.2)	(4.2)
Charge direct to recognised income and expense	–	0.2	(8.4)	–	(8.2)
Share-based payments credited to equity	–	2.7	–	–	2.7
At 30 June 2007	**(2.8)**	**(6.6)**	**6.8**	**0.8**	**(1.8)**

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

	Assets		Liabilities		Net	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Property, plant and equipment	**1.5**	0.8	**(4.3)**	(3.8)	**(2.8)**	(3.0)
Inventories	**2.9**	2.7	**(10.1)**	(0.6)	**(7.2)**	2.1
Payables	**4.4**	3.0	**(7.6)**	(5.3)	**(3.2)**	(2.3)
Financial instruments	**–**	–	**(0.1)**	(0.3)	**(0.1)**	(0.3)
Retirement benefit obligations	**8.7**	20.1	**(1.9)**	(2.0)	**6.8**	18.1
Share-based payments	**3.9**	3.3	**–**	–	**3.9**	3.3
Tax losses	**0.8**	1.0	**–**	–	**0.8**	1.0
Total	**22.2**	30.9	**(24.0)**	(12.0)	**(1.8)**	18.9
Set-off tax	**(13.5)**	(10.0)	**13.5**	10.0	**–**	–
Net tax assets/(liabilities)	**8.7**	20.9	**(10.5)**	(2.0)	**(1.8)**	18.9

15. Inventories

	2007 £m	2006 £m
Raw materials and consumables	**2.3**	2.8
Construction contracts in progress	**27.9**	19.4
Land and work in progress held for development	**416.0**	343.0
Other work in progress	**13.9**	12.6
	460.1	377.8

16. Construction contracts

Contracts in progress at the balance sheet date comprise contract costs incurred plus recognised profits less losses of £6,208.1m (2006: £3,971.3m), less progress billings received and receivable of £6,323.2m (2006: £4,056.1m).

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

	2007 £m	2006 £m
Inventories	**27.9**	19.4
Trade and other payables	**(143.0)**	(104.2)
	(115.1)	(84.8)

17. Trade and other receivables

	2007 £m	2006 £m
Current:		
Trade receivables	**231.9**	200.6
Construction contract retentions	**38.0**	27.7
Amounts receivable from joint ventures	**16.7**	5.6
Other receivables	**18.7**	11.6
Prepayments and accrued income	**14.1**	12.9
	319.4	258.4
Non-current:		
Construction contract retentions	**9.9**	10.7
Other receivables	**0.4**	5.4
	10.3	16.1

18. Cash, cash equivalents and borrowings

This note provides information about the contractual terms of the Group's bank balances, interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 25.

	2007 £m	2006 £m
Bank balances and cash in hand	**163.3**	126.6
Bank deposits with a maturity of less than three months	**15.3**	14.7
Cash and cash equivalents	**178.6**	141.3
Long-term borrowings	**(30.2)**	(30.1)
Net funds in the statement of cash flows	**148.4**	111.2

Long-term borrowings comprise a 10-year private placement of loan notes made in February 2003. The borrowings are unsecured and fixed at an interest rate of 6.4% per annum for 10 years. Further information on these borrowings are detailed in note 25.

Cash and cash equivalents includes £17.7m (2006: £12.6m) being the Group's share of cash and cash equivalents held by joint arrangements and £26.6m (2006: £25.0m) of cash not readily available to the Group.

19. Trade and other payables

	2007 £m	2006 £m
Current:		
Payments received on account	**3.9**	5.2
Trade payables	**521.0**	444.7
Construction contract balances	**143.0**	104.2
Other taxation and social security costs	**21.3**	17.8
Other payables	**24.9**	19.1
Accruals and deferred income	**77.7**	79.5
	791.8	670.5
Non-current:		
Trade payables	**46.7**	33.0
Accruals and deferred income	**3.3**	3.8
	50.0	36.8

20. Provisions

	Restoration of mining sites £m	Other provisions £m	Total £m
At 1 July 2006	5.1	13.9	19.0
Utilised	(0.5)	(4.9)	(5.4)
Unwinding of discount	0.4	–	0.4
Additions	0.2	8.4	8.6
At 30 June 2007	**5.2**	**17.4**	**22.6**

Future outflows in respect of the restoration of mining sites are expected to occur over the next 5 years.

Other provisions include £14.0m (2006: £12.2m) held in the Group's captive insurance company. Due to the nature of the liabilities, the timing of any potential future outflows is uncertain.

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

	2007 £m	2006 £m
Due within one year	**2.4**	0.9
Due after one year	**20.2**	18.1
	22.6	19.0

21. Share capital

The share capital of the Company comprises:

	2007 Number	2007 £m	2006 Number	2006 £m
Ordinary Shares of 1p each authorised	**45,000,000**	**0.5**	45,000,000	0.5
Issued and fully paid	**36,572,105**	**0.4**	35,887,131	0.4

During the year 684,974 Ordinary Shares were issued at a total premium of £7.0m, of which 197,196 were issued as a scrip dividend alternative at a premium of £3.9m and 487,778 were issued under the Sharesave Scheme at a premium of £3.1m.

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.

22. Reconciliation of movement in reserves and changes in total equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Attributable to equity holders of the parent £m	Minority interests £m	Total equity £m
At 30 June 2005	0.4	17.9	2.7	31.7	–	0.1	52.8	–	52.8
Effect of adoption of IAS 32 and IAS 39 (net of tax)	–	–	–	–	(5.3)	–	(5.3)	–	(5.3)
At 1 July 2005 (restated)	0.4	17.9	2.7	31.7	(5.3)	0.1	47.5	–	47.5
Total recognised income and expense	–	–	–	63.9	2.9	(0.3)	66.5	–	66.5
Dividends paid	–	–	–	(8.3)	–	–	(8.3)	–	(8.3)
Issue of own shares	–	2.1	–	–	–	–	2.1	–	2.1
Purchase of own shares	–	–	–	(2.0)	–	–	(2.0)	–	(2.0)
Share-based payments charge	–	–	–	1.1	–	–	1.1	–	1.1
Deferred tax on share-based payments	–	–	–	1.6	–	–	1.6	–	1.6
At 30 June 2006	0.4	20.0	2.7	88.0	(2.4)	(0.2)	108.5	–	108.5
Total recognised income and expense	–	–	–	69.6	9.4	(0.4)	78.6	0.8	79.4
Dividends paid	–	–	–	(9.8)	–	–	(9.8)	–	(9.8)
Issue of own shares	–	7.0	–	–	–	–	7.0	–	7.0
Purchase of own shares	–	–	–	(8.7)	–	–	(8.7)	–	(8.7)
Share-based payments charge	–	–	–	3.9	–	–	3.9	–	3.9
Tax on share-based payments	–	–	–	2.7	–	–	2.7	–	2.7
At 30 June 2007	**0.4**	**27.0**	**2.7**	**145.7**	**7.0**	**(0.6)**	**182.2**	**0.8**	**183.0**

Cash flow hedge reserve

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

Translation reserve

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

23. Share-based payments

Options and awards over the Company's ordinary shares at 30 June 2007 were as follows:

	Sharesave scheme	Sharesave scheme	LTIP 2005 award	LTIP 2006 award	LTIP 2007 award	Total
Date of grant	25 May 2007	29 October 2003	1 December 2004	3 October 2005	2 October 2006	
Awards outstanding at 30 June 2007						
– directors	1,208	–	127,648	107,258	89,607	**325,721**
– employees	303,511	1,180	187,945	160,154	103,850	**756,640**
	304,719	1,180	315,593	267,412	193,457	**1,082,361**

Sharesave scheme

Options were granted on 29 October 2003 at an exercise price of 625p. The majority of these have either lapsed or been exercised during the period from 1 January 2007 to 30 June 2007. A balance of 1,180 options remain outstanding to holders who suspended payments during the option period. These have to be exercised by 31 December 2007.

Options were granted on 25 May 2007 at an exercise price of 2,500p, these are exercisable at the holders' discretion from 1 July 2010 until 1 January 2011.

23. Share-based payments continued

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 Company achieving specific performance targets.

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

	2007 Number of shares	**£m**	2006 Number of shares	£m
At 1 July	**355,167**	**3.1**	256,331	1.4
Acquired during the year	**370,000**	**8.7**	167,000	2.0
Issued in satisfaction of awards	**(91,514)**	**(0.5)**	(68,164)	(0.3)
At 30 June	**633,653**	**11.3**	355,167	3.1

The market value of these shares at 30 June 2007 was £13.0m. 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 page 40.

Value of share schemes

The fair value per option granted has been calculated using the Black-Scholes model using the following assumptions:

	Sharesave scheme	**Sharesave scheme**	**LTIP 2005 award**	**LTIP 2006 award**	**LTIP 2007 award**
Date of grant	25 May 2007	29 October 2003	1 December 2004	3 October 2005	2 October 2006
Share price at grant	2,254.0p	604.5p	699.0p	1,065.0p	1,836.0p
Exercise price	2,500.0p	625.0p	nil	nil	nil
Option life	3 years	3 years	3 years	3 years	3 years
Expected volatility	26.4%	27.8%	N/A	N/A	N/A
Dividend yield	1.2%	3.0%	2.8%	2.0%	1.4%
Risk-free interest rate	5.7%	4.8%	N/A	N/A	N/A
Value per option	445.0p	114.0p	633.0p	1,043.0p	1,756.0p

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

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

The total charge for the year relating to share-based payment plans was:

	2007 £m	2006 £m
Equity-settled	**3.9**	1.1
Cash-settled including employer's national insurance	**(0.6)**	2.6
Total expense recognised as employee costs	**3.3**	3.7

Included in other payables is an amount of £1.6m (2006: £3.5m) relating to provisions for employer's national insurance and cash settled share-based payment plans.

23. Share-based payments continued

A reconciliation of option movements is shown below:

	Number of options 2007	Weighted average exercise price 2007	Number of options 2006	Weighted average exercise price 2006
Outstanding at 1 July	**1,326,713**	**239.6p**	1,319,351	266.3p
Forfeited	**(164,318)**	**83.9p**	(190,065)	151.3p
Exercised	**(578,684)**	**526.2p**	(85,831)	56.1p
Granted	**498,650**	**1530.1p**	283,258	–
Outstanding at 30 June	**1,082,361**	**704.5p**	1,326,713	239.6p
Exercisable at 30 June	**–**	**–**	–	–

24. 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. As part of the Office of Fair Trading's ongoing and wide ranging review of tender activity in the construction sector, it has written to the Group with regard to Kier Regional Limited's conduct in respect of 20 tenders submitted between 2000 and 2005. These tenders represent a very small proportion of the bidding activity of Kier Regional Limited during this period. It is not possible to predict whether these enquiries will have an adverse effect on the Group's financial position or results of operations.

25. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in interest and exchange rates.

Credit risk

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

Policies and procedures exist to ensure that customers have an appropriate credit history.

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

Interest rate risk

The Group has hedged its exposure to interest rate movements through a private placement of £30.2m of loan notes for 10 years from February 2003, which bear interest on a fixed rate basis at 6.4% p.a. The balance of the Group's borrowings are to finance short-term working capital requirements. Such borrowings are subject to floating rates of interest linked to LIBOR.

In addition, a number of the Group's PFI and Property 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 foreign currency exposures are identified these are hedged using forward foreign exchange contracts.

Derivative financial instruments

At 30 June 2007	Current assets £m	Non-current assets £m	Total assets £m	Total liabilities £m
Fuel price forward contracts	**0.3**	**0.2**	**0.5**	**–**

25. Financial instruments continued

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 2007 the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £170.3m. The Group's share of the total net fair value asset of these interest rate derivatives at 30 June 2007 amounted to £8.8m which, together with the related deferred tax liability of £2.5m, have met the criteria for hedge accounting and as a result have been recognised directly in equity.

Financial assets and liabilities – analysis by currency and maturity dates

At 30 June 2007 the Group had cash, overdrafts and long-term borrowings denominated in the following currencies:

	2007 Financial assets £m	**2007 Financial liabilities £m**	**2007 Aggregate £m**	2006 Financial assets £m	2006 Financial liabilities £m	2006 Aggregate £m
Currency:						
Sterling	**166.3**	**(16.8)**	**149.5**	133.0	(16.7)	116.3
US dollar	**1.2**	**(13.4)**	**(12.2)**	5.4	(13.4)	(8.0)
Euro	**9.4**	**–**	**9.4**	1.7	–	1.7
Other	**1.7**	**–**	**1.7**	1.2	–	1.2
Total	**178.6**	**(30.2)**	**148.4**	141.3	(30.1)	111.2

There is no material difference between the carrying value and fair value of the Group's aggregate financial assets and liabilities.

The financial liabilities represent a £17.0m UK sterling loan and a £13.4m US dollar loan, net of £0.2m of capitalised finance costs, from the private placement of loan notes made in February 2003. The loans are repayable in one payment in February 2013. The UK sterling loan is at a fixed interest rate of 6.4% for the term of the loan. The Group has entered into interest payment and repayment swaps for the US dollar loan, which give an effective 6.4% fixed interest rate for the term of the loan.

The remaining financial assets and liabilities are cash, short-term deposits and overdrafts at floating rates based on LIBOR.

Borrowing facilities

The Group has £107.5m (2006: £107.5m) of unsecured committed borrowing facilities due for renewal as follows:

	Undrawn facility £m
2008	15.0
2011	92.5
	107.5

In addition the Group has £12.5m (2006: £12.5m) of unsecured overdraft facilities repayable on demand.

26. Financial and capital commitments

	2007 £m	2006 £m
Commitments for capital expenditure in subsidiaries	**3.4**	2.9
Commitments for equity and subordinate debt in PFI joint ventures	**7.3**	13.7
	10.7	16.6

Non-cancellable operating lease rentals are payable as follows:

	2007		2006	
	Property £m	Plant and machinery £m	Property £m	Plant and machinery £m
Within one year	**0.4**	**2.3**	1.5	2.9
Between one and five years	**5.5**	**19.6**	5.3	14.1
Over five years	**11.3**	**–**	9.8	0.2
	17.2	**21.9**	16.6	17.2

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period of 99 years. Vehicle leases typically run for a period of four years. None of the leases includes contingent rentals.

27. Related parties

Identity of related parties
The Group has a related party relationship with its joint arrangements, joint ventures and key management personnel.

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 32 and 33. During the year Miss D E Mattar acquired services including project management and engineering design advice from Group companies amounting to £29,828 (including VAT). These services were employed on an arm's length basis and have been paid for in full. Other than disclosed in the directors' remuneration report, there were no other transactions with key management personnel in either the current or preceding year.

Sales of goods to joint arrangements and joint ventures

	2007 £m	2006 £m
Construction services and materials	**86.2**	71.1
Staff and associated costs	**12.4**	13.8
Management services	**2.4**	1.0
	101.0	85.9

Amounts due from joint ventures are analysed below:

	2007 £m	2006 £m
Academy Services (Norwich) Limited	**–**	0.1
Academy Services (Oldham) Limited	**4.4**	1.5
Academy Services (Sheffield) Limited	**2.6**	2.7
Academy Services (Tendering) Limited	**0.7**	0.7
Academy Services (Waltham Forest) Limited	**3.3**	0.7
ASK (Greenwich) Limited	**0.8**	0.8
Information Resources (Bournemouth) Limited	**0.8**	0.8
Information Resources (Oldham) Limited	**1.0**	–
Prospect Healthcare (Hairmyres) Limited	**4.5**	4.5
Prospect Healthcare (Hinchingbrooke) Limited	**1.2**	1.2
Prospect Healthcare (Ipswich) Limited	**7.1**	–
Prospect Healthcare (Reading) Limited	**1.7**	1.7
Kier Developments Limited	**23.9**	18.8
	52.0	33.5

28. Acquisitions

Summary of acquisitions

	2007 £m	2006 £m
Construction and building services operations of:		
Sheffield City Council	**1.4**	1.6
Harlow Council	**1.0**	–
Hugh Bourn Developments (Wragby) Limited:		
Consideration paid	**24.0**	–
Net borrowings on acquisition	**1.6**	–
Ashwood Homes: consideration paid	**–**	8.5
Total	**28.0**	10.1

Acquisition of the business and assets of the construction and building services operation of Sheffield City Council

On 31 March 2003 the Group, through its subsidiary Kier Sheffield LLP, acquired the business and assets of the construction and building services operation of Sheffield City Council. The consideration, payable wholly in cash was £16.7m, representing the value of the net assets acquired.

The consideration is payable as follows:

	£m
Total consideration payable	16.7
Paid at 30 June 2006	(14.2)
Paid during the year ended 30 June 2007	(1.4)
Unwinding of discount	1.2
Deferred at 30 June 2007	2.3
Due in one year or less	1.1
Due between one and five years	1.2
	2.3

Acquisition of Hugh Bourn Developments (Wragby) Limited.

On 31 July 2006 the Group acquired the entire share capital of Hugh Bourn Developments (Wragby) Limited. The consideration payable, wholly in cash, was £46.8m representing the value of the net assets acquired. £24.0m was paid in cash during the year ended 30 June 2007 with the balance due in equal instalments on 2 July 2007 and 1 July 2008.

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

	Book value £m	Adjustments £m	Fair value £m
Tangible assets	0.8	(0.6)	0.2
Inventories	22.6	39.4	62.0
Receivables	1.2	–	1.2
Cash and cash equivalents	5.1	–	5.1
Payables	(1.6)	(1.4)	(3.0)
Tax liabilities	(1.0)	–	(1.0)
Deferred tax liabilities	(0.1)	(10.9)	(11.0)
Bank overdrafts and loans	(6.7)	–	(6.7)
Total consideration payable	20.3	26.5	46.8
Paid during the year ended 30 June 2007			(24.0)
Deferred at 30 June 2007			22.8

The results of the business of Hugh Bourn Developments (Wragby) Limited since acquisition to 30 June 2007 are revenue of £24.9m and profit before tax of £2.4m.

Acquisition of the business and assets of the building services operation of Harlow Council

On 1 April 2007 the Group, through its subsidiary Kier Harlow Limited, acquired the business and assets of the building services operation of Harlow Council. The consideration, payable wholly as cash was £1.0m, representing the value of the net assets acquired (intangible assets £0.8m and inventory £0.2m).

Company balance sheet
at 30 June 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Investment in subsidiary undertakings	5	**105.3**	55.3
Current assets			
Debtors	6	**6.9**	39.2
Cash at bank and in hand		**197.2**	207.4
		204.1	246.6
Current liabilities			
Creditors – amounts falling due within one year	7	**(233.9)**	(235.1)
Net current (liabilities)/assets		**(29.8)**	11.5
Total assets less current liabilities		**75.5**	66.8
Creditors – amounts falling due after more than one year	7	**(30.2)**	(30.1)
Net assets		**45.3**	36.7
Capital and reserves			
Called up share capital	8	**0.4**	0.4
Share premium account	9	**27.0**	20.0
Merger relief reserve	9	**1.2**	1.2
Capital redemption reserve	9	**2.7**	2.7
Profit and loss account	9	**14.0**	12.4
Shareholders' funds	10	**45.3**	36.7

The financial statements were approved by the Board of directors on 12 September 2007 and were signed on its behalf by:

J Dodds
D E Mattar
Directors

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 and in accordance with UK GAAP.

A cash flow statement has not been presented as permitted by FRS 1 (revised) 'Cash flow statements'.

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

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

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

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.

2. Profit for the year

As permitted by section 230 of the Companies Act 1985, the Company has elected not to present its own profit and loss account for the year.

The auditors' remuneration for audit services to the Company was £4,650 (2006: £4,450). No other services were provided to the Company.

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 39 to 43. The Company has no other employees other than the directors.

4. Dividends

Details of the dividends paid by the Company are included in note 9 of the consolidated financial statements.

5. Fixed assets – investments

	£m
Cost at 1 July 2006	55.3
Additions	50.0
Cost at 30 June 2007	105.3

The additions during the year relate to an increase of £50.0m in the investment in an existing subsidiary undertaking, Kier Residential Limited.

6. Debtors

	2007 £m	2006 £m
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	–	34.9
Other debtors	**3.7**	3.8
Corporation tax	**3.2**	0.5
	6.9	39.2

7. Creditors

	2007 £m	2006 £m
Amounts falling due within one year:		
Bank overdrafts and loans	**202.6**	202.0
Amounts due to subsidiary undertakings	**26.6**	27.9
Other creditors	**4.7**	5.2
	233.9	235.1
Amounts falling due after one year:		
Long-term borrowings	**30.2**	30.1

Long-term borrowings due after more than one year comprises borrowings in respect of a 10-year private placement of loan notes made in February 2003. The borrowings are unsecured and fixed at an interest rate of 6.4% per annum for 10 years.

8. Share capital

Details of the share capital of the Company are included in note 21 of the consolidated financial statements.

9. Reserves

The movement in reserves is as follows:

	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Profit and loss £m
At 1 July 2005	17.9	1.2	2.7	10.7
Issue of shares	2.1	–	–	–
Increase in investment in own shares	–	–	–	(1.7)
Share-based payments charge	–	–	–	0.5
Profit for the year	–	–	–	11.2
Dividends paid	–	–	–	(8.3)
At 30 June 2006	20.0	1.2	2.7	12.4
Issue of shares	7.0	–	–	–
Increase in investment in own shares	–	–	–	(8.2)
Share-based payments charge	–	–	–	1.5
Profit for the year	–	–	–	18.1
Dividends paid	–	–	–	(9.8)
At 30 June 2007	**27.0**	**1.2**	**2.7**	**14.0**

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment schemes are included in note 23 of the consolidated financial statements.

10. Reconciliation of movement in shareholders' funds

	2007 £m	2006 £m
Opening shareholders' funds	**36.7**	32.9
Profit for the year	**18.1**	11.2
Dividends paid	**(9.8)**	(8.3)
Issue of shares	**7.0**	2.1
Increase in investment in own shares	**(8.2)**	(1.7)
Share-based payment charge	**1.5**	0.5
Closing shareholders' funds	**45.3**	36.7

Principal operating subsidiaries and business units

Construction	**Kier Regional Limited** Kier Build Kier Eastern Kier London Kier Northern Kier North West Kier Partnership Homes Limited Kier Scotland Kier South East Kier Southern Kier Western Marriott Construction Moss Construction
	Kier Construction Limited
Support Services	**Kier Support Services Limited** Kier Building Maintenance Kier Building Services Engineers Kier Engineering Services Kier Harlow Limited Kier Islington Limited Kier Managed Services Limited Kier Plant Limited Kier Sheffield LLP
Homes	**Kier Residential Limited** Allison Homes Eastern Limited Bellwinch Homes Limited Kier Homes Limited Kier Homes Northern Limited Twigden Homes Limited
Property	**Kier Property Limited** Kier Developments Limited (50% owned and accounted for as a joint venture) Kier Ventures Limited
Infrastructure Investment	**Kier Project Investment Limited**
Group Services	**Kier Limited**

Notes:

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

ii) The Group has entered into partnership agreements with Harlow Council and Sheffield City Council whereby the respective councils receive a minority share of the profits of Kier Harlow Limited and Kier Sheffield LLP.

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 Residential Limited. The shares of the other companies are held by subsidiary undertakings.

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

Principal joint arrangements and joint ventures

Joint arrangements

Building and/or civil engineering construction

The following joint arrangements, in which the Group participation is between 33% and 50%, operate in the United Kingdom:

Besix/Kier	a joint arrangement between Kier Construction and NV Besix SA.
Kier/Nuttall	a joint arrangement between Kier Construction and Edmund Nuttall Limited
Kier/Murphy/ Interserve	a joint arrangement between Kier Construction, J Murphy & Sons Limited and Interserve Project Services Limited
KMI Plus	a joint arrangement between Kier Construction, J Murphy & Sons Limited, Interserve Project Services Limited and Mouchel Parkman Services Limited

The following joint arrangements, in which the Group participation is between 40% and 50%, operate overseas, in the territory indicated:

Dubai

Leighton/Kier	a joint arrangement between Kier Construction and Gulf Leighton LLC

Jamaica

Besix/Kier	a joint arrangement between Kier Construction and NV Besix SA.
Kier/CCC	a joint arrangement between Kier Construction and Commercial Contracting Company of San Antonio, Inc.

Suriname

Kier/CCC	a joint arrangement between Kier Construction and Commercial Contracting Company of San Antonio, Inc.

Romania

Mivan/Kier	a joint arrangement between Mivan Limited and Kier Construction

Commercial Property Development

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

Joint ventures

	Interest held
Long-term concession holding under the Private Finance Initiative	
Academy Services (Holdings) Limited	50%
Academy Services (Norwich) Holdings Limited	50%
Academy Services (Oldham) Holdings Limited	50%
Academy Services (Sheffield) Holdings Limited	50%
Academy Services (Waltham Forest) (Holdings) Limited	50%
ASK (Holdings) Limited	50%
Information Resources (Holdings) Limited	50%
Information Resources (Oldham) Holdings Limited	50%
Justice Support Services (North Kent) Holdings Limited	42.5%
Prospect Healthcare (Hairmyres) Group Limited	50%
Prospect Healthcare (Hinchingbrooke) Holdings Limited	50%
Prospect Healthcare (Ipswich) Holdings Limited	50%
Prospect Healthcare (Reading) Holdings Limited	50%
Commercial property development	
Kier Developments Limited	50%
Kier Warth Limited	50%

Notes:

i) Joint arrangements are contracted agreements to co-operate on a specific project which is an extension of the Group's existing business. Joint ventures are ongoing businesses carrying on their own trade.

ii) Except where otherwise stated the companies are incorporated and operate in the United Kingdom.

Financial record

Year ended 30 June	IFRS 2007 £m	2006 £m	2005 £m	UK GAAP 2004 £m	2003 £m
Revenue: Group and share of joint ventures	**2,127.9**	1,838.3	1,623.2	1,476.5	1,445.6
Group operating profit	**74.9**	56.0	48.1	39.4	33.1
Joint ventures – share of operating profit	**7.3**	7.2	5.2	3.2	3.1
Total finance cost net	**(3.2)**	(2.7)	(4.3)	(2.0)	(0.6)
Joint venture tax	**(1.4)**	(1.4)	(1.2)	–	–
Other	**–**	–	6.7	–	(2.3)
Profit before tax	**77.6**	59.1	54.5	40.6	33.3
Income tax	**(21.3)**	(16.2)	(17.9)	(12.0)	(9.5)
Profit for the year	**56.3**	42.9	36.6	28.6	23.8
Earnings per share					
– undiluted	**155.0p**	120.8p	103.4p	81.5p	69.5p
Dividend per share	**50.0p**	26.0p	22.2p	19.0p	16.4p
At 30 June					
Shareholders' funds	**£183.0m**	£108.5m	£52.8m	£116.4m	£92.7m
Net assets per share	**500.4p**	302.3p	148.0p	327.7p	265.9p

The figures for 2005 were restated in 2006 in respect of the transition from UK GAAP to IFRS. The figures for 2003 and 2004 above have not been restated to an IFRS basis as it is not practicable to do so.

Corporate information

Directors
P T Warry MA FREng *Chairman*
J Dodds *Chief Executive*
I M Lawson FCIOB
D E Mattar BSc FCA
M O'Farrell
M P Sheffield BSc CEng MICE
R W Side FCIOB FFB MCMI
R W Simkin BSc MRTPI
S W Leathes MA FCA
P M White CBE FCA

Mr C V Geoghegan BA FRAeS (appointed 1 July 2007)

M D Barton LLB *Secretary*

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E14 5HP

The Royal Bank of Scotland PLC
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EC2M 4RB

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Capita Registrars
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Fenay Bridge
Huddersfield
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Beaufort House
15 St Botolph Street
London
EC3A 7QR

Financial Advisors
Hawkpoint Partners Limited
41 Lothbury
London
EC2R 7AE

Financial calendar

24 November 2007
Annual General Meeting

4 December 2007
Payment of final dividend for 2006/07

February 2008
Announcement of half-year results and interim dividend for 2007/08

April 2008
Payment of interim dividend

September 2008
Announcement of preliminary full-year results and final dividend for 2007/08

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