

THIS DOCUMENT AND THE ACCOMPANYING FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 (the “FSMA”) if you are resident in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

This document, which comprises a prospectus relating to Kier Group plc and a circular relating to the Acquisition, has been prepared in accordance with the Prospectus Rules of the UK Listing Authority made under section 84 of FSMA and approved by the FCA under section 87A of FSMA. This prospectus has been filed with the FCA and made available to the public in accordance with Rule 3.2.1 of the Prospectus Rules.

Kier and the Kier Directors accept responsibility for the information contained in this document. To the best of the knowledge of Kier and the Kier Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

If you have sold or otherwise transferred all of your Kier Shares, you should send this document and the accompanying Form of Proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or the transferee. However, the distribution of this document and the accompanying Form of Proxy into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document and the accompanying Form of Proxy come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, such documents should not be distributed in, forwarded to or transmitted in or into any Restricted Jurisdiction.

YOU SHOULD READ THE WHOLE OF THIS DOCUMENT AND ALL DOCUMENTS INCORPORATED IN IT BY REFERENCE, IN THEIR ENTIRETY. IN PARTICULAR, YOU SHOULD TAKE ACCOUNT OF THE SECTION ENTITLED RISK FACTORS ON PAGES 18-28 (INCLUSIVE) OF THIS DOCUMENT FOR A DISCUSSION OF THE RISKS THAT MIGHT AFFECT THE VALUE OF YOUR SHAREHOLDING IN KIER GROUP PLC. YOU SHOULD NOT RELY SOLELY ON INFORMATION SUMMARISED IN THE SUMMARY.

Investors should only rely on the information contained in this document and contained in any documents incorporated into it by reference. No person has been authorised to give any information or make any representations other than those contained in this document and all documents incorporated by reference in it and, if given or made, such information or representation must not be relied upon as having been so authorised by Kier, the Kier Board or the Financial Advisers. Kier will comply with its obligation to publish a supplementary prospectus containing further updated information required by law or by any regulatory authority, but assumes no further obligation to publish additional information.



(incorporated and registered in England and Wales with registered number 02708030)

Proposed issue of 14,714,445 new ordinary shares in Kier to May Gurney Shareholders in connection with the proposed acquisition of May Gurney by means of a scheme of arrangement under Part 26 of the Companies Act and application for admission of 14,714,445 new ordinary shares in Kier to the premium listing segment of the Official List and to trading on the London Stock Exchange’s main market for listed securities and Notice of General Meeting

A notice convening the Kier General Meeting to be held at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ on 14 June 2013 at 10.00 a.m. is set out at the end of this document. A Form of Proxy for use in connection with the Kier General Meeting is enclosed with this document. Whether or not you intend to attend the Kier General Meeting in person, to be valid, the Form of Proxy should be completed, signed and returned in accordance with the instructions printed on it so as to be received by Kier’s registrar, Capita Registrars, (CREST participant ID RA10), as soon as possible and, in any event, by no later than 10.00 a.m. on 12 June 2013. If you hold Kier Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Kier’s registrar, Capita Registrars so that it is received by no later than 10.00 a.m. on 12 June 2013. The completion and return of a Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting in person at the Kier General Meeting or any adjournment thereof, if you wish to do so and are so entitled.

Your attention is drawn to the letter from the Chairman of Kier which is set out on pages 36-50 (inclusive) of this document and which contains the unanimous recommendation of the Kier Directors that you vote in favour of the Resolutions to be proposed at the Kier General Meeting referred to below.

Application will be made to the UK Listing Authority for the New Kier Shares to be admitted to the premium listing segment of the Official List and will be made to the London Stock Exchange for the New Kier Shares to be admitted to trading on the London Stock Exchange's main market for listed securities (together, the "Admission"). It is expected that Admission will become Effective, and that dealings in the New Kier Shares will commence, on the Effective Date which, subject to the satisfaction of certain conditions, including the sanction of the Scheme by the Court, is expected to be on 5 July 2013.

This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation to purchase or subscribe for, the New Kier Shares in the United States.

The New Kier Shares have not been, and will not be, registered under the US Securities Act or under the securities laws of any state, district or other jurisdiction of the United States. Accordingly, the New Kier Shares may not be offered, sold, resold, delivered, distributed or otherwise transferred, directly or indirectly, in, into or from the United States absent registration under the US Securities Act or an exemption therefrom. The New Kier Shares to be issued to existing May Gurney Shareholders pursuant to the Scheme are expected to be issued in reliance upon an exemption from the registration requirements of the US Securities Act afforded by Section 3(a)(10) thereof and exemption from registration and qualification under applicable state securities laws. May Gurney Shareholders (whether or not US persons) who are or will be affiliates (within the meaning of the US Securities Act) of Kier or May Gurney prior to, or of the Enlarged Group after, the Effective Date will be subject to certain US transfer restrictions relating to the New Kier Shares received pursuant to the Scheme. For a description of these and certain further restrictions on offers, sales and transfers of the New Kier Shares and the distribution of this document, see paragraph 19 of Part I of this document.

None of the securities referred to in this document has been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have such authorities passed upon or determined the adequacy or accuracy of this document. Any representation to the contrary is a criminal offence in the United States.

The release, publication or distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and, therefore, any persons who are subject to the laws of any jurisdiction other than the United Kingdom should inform themselves about, and observe, any applicable requirements. Failure to comply with any such restrictions may constitute a violation of the securities laws of any jurisdiction. This document has been prepared to comply with requirements of English law, the Listing Rules, the Prospectus Rules and the rules of the London Stock Exchange and information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside England.

J.P. Morgan Limited, which conducts its UK investment banking businesses as J.P. Morgan Cazenove ("J.P. Morgan Cazenove"), is authorised and regulated in the United Kingdom by the FCA. J.P. Morgan Cazenove is acting as joint sponsor, corporate broker and financial adviser to Kier and no one else in connection with the matters set out in this document and will not regard any other person as its client in relation to the matters in this document and will not be responsible to anyone other than Kier for providing the protections afforded to clients of J.P. Morgan Cazenove, or for providing advice in relation to any matter referred to herein.

Numis Securities Limited ("Numis") is authorised and regulated in the United Kingdom by the FCA. Numis is acting as joint sponsor, corporate broker and financial adviser to Kier and no one else in connection with the matters set out in this document and will not regard any other person as its client in relation to the matters in this document and will not be responsible to anyone other than Kier for providing the protections afforded to clients of Numis, nor for providing advice in relation to any matter referred to herein.

THE CONTENTS OF THIS DOCUMENT OR ANY SUBSEQUENT COMMUNICATION FROM KIER OR THE FINANCIAL ADVISERS OR ANY OF THEIR RESPECTIVE AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS ARE NOT TO BE CONSTRUED AS LEGAL, FINANCIAL OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN SOLICITOR, INDEPENDENT FINANCIAL ADVISER OR TAX ADVISER FOR LEGAL, FINANCIAL OR TAX ADVICE.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OF, AND MAY NOT BE USED FOR THE PURPOSES OF, AN OFFER TO SELL OR AN INVITATION, OR THE SOLICITATION OF AN OFFER TO SUBSCRIBE FOR OR BUY, ANY SECURITIES. NONE OF THE SECURITIES REFERRED TO IN THIS DOCUMENT SHALL BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

No New Kier Shares have been marketed to, nor are any available for purchase by, the public in the UK or elsewhere in connection with the admission of the New Kier Shares to the Official List and to trading on the London Stock Exchange.

Enforceability of judgments

Kier is a public limited company incorporated under the laws of England and Wales. All of the Kier Directors and the executive officers of Kier are citizens or residents of countries other than the United States. All or substantially all of the assets of such persons may be, and substantially all the assets of the Kier Group are, located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or Kier, or to enforce against them judgments of US courts, including judgments predicated upon civil liabilities under the securities laws of the United States or any state or territory within the United States. There is substantial doubt as to the enforceability in the United Kingdom in original actions or in actions for enforcement of judgments of US courts, based on the civil liability provisions of US federal securities laws.

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SUMMARY

Summaries are made up of disclosure requirements known as “Elements”. These elements are numbered in Sections A - E (A.1 - E.7). This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of “not applicable”.

<i>Section A – Introduction and Warnings</i>		
Element	Disclosure requirement	Disclosure
A.1	Warning	This summary should be read as an introduction to this document. Any decision to invest in the New Kier Shares should be based on consideration of this document as a whole. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the member states of the EEA, have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in such securities.
A.2	Resale or final placement of securities through financial intermediaries	Not applicable. Kier is not engaging any financial intermediaries for any resale of securities or final placement of securities after publication of this document.

<i>Section B – Issuer</i>		
Element	Disclosure requirement	Disclosure
B.1	Legal and commercial name	Kier Group plc.
B.2	Domicile/legal form/legislation under which the issuer operates/country of incorporation	The Company is incorporated in England as a public limited company, limited by shares. Its registered office is situated in England and its registered number is 02708030. The principal legislation under which the Company operates is the Companies Act.
B.3	Current operations/principal activities/principal markets	<p>Kier is a leading construction, services and property group specialising in building and civil engineering, support services, commercial property development and structured property financing and private and affordable housing. The business is organised into three divisions:</p> <ul style="list-style-type: none"> • Kier Construction: the construction division encompasses UK regional contracting, civil engineering and overseas businesses, which are highly skilled in the construction of the full range of building projects, together with power, waste, nuclear and infrastructure facilities, rail and mining projects.

		<ul style="list-style-type: none"> • Kier Services: the services division comprises three main businesses: maintenance, which provides both reactive and planned maintenance largely to local authorities and housing associations; facilities management, which provides services to public and private sector clients; and environmental, which offers domestic and commercial waste collection services, manages and operates a major recycling facility and provides street scene and grounds maintenance services. • Kier Property: the property division comprises three main businesses: commercial, industrial, retail and mixed-use property development; structured property financing; and house-building, including both private and affordable housing.
B.4a	Most significant recent trends of the Company and its industry	<p><i>Kier</i> On 24 April 2013, Kier released its interim management statement (which was supplemented on 25 April 2013) for the period from 31 December 2012, reporting that it remains on course to meet management’s expectations for the current financial year. The Kier Group’s order books in Construction and Services remain robust, trading performance and cash position are in line with management’s expectations and the Kier Group is experiencing a good level of bidding activity across the business. Kier remains well placed to win new work, particularly in its chosen growth markets and the Kier Group has a strong capital structure, augmented by securing the £30 million four-year bilateral loan agreement with Lloyds TSB Bank plc in January 2013, provided under the Government’s Funding for Lending Scheme and the Acquisition Financing Agreement on 22 April 2013.</p> <p><i>May Gurney</i> In HY2013, May Gurney secured £314 million of work, including more than £164 million in new contracts, primarily from its Waterways and Fleet & Passenger Services operations, and a seven-year extension to its environmental services contract with the Somerset Waste Partnership, valued at £100 million and its forward order book was maintained at £1.5 billion, with a further £1.7 billion in potential contract extensions, and a bidding pipeline which stood at approximately £4 billion.</p> <p><i>Industry</i> This is the fourth year of industry recession and forecasts anticipate further decline across some of Kier’s core markets, particularly UK building where it is restructuring its business. The services sector has been uncertain over the last two years with existing outsourcing contracts being constrained and uncertainty over departmental budgets delaying decision making. New outsourcing work has been slow to come to market but there is an increase in opportunities.</p>

		<p>The prospects for the medium and long term are encouraging. There is “cross-party” support for the sectors in which Kier operates, particularly construction and affordable housing, and a recognition that investment is needed in UK infrastructure, and in repairs and maintenance, to help lift the economy out of recession.</p> <p>Kier’s overseas business continues to grow, building upon an already well-established regional presence and order book in the Caribbean, Middle East and Hong Kong. In particular, there are opportunities in adjacent Middle East and Asian markets.</p>																																																												
B.5	Group structure	<p>Kier is the parent company of the Kier Group. The following table contains a list of the principal subsidiaries of Kier and of May Gurney as at the date of this document (each of which is considered by Kier to be likely to have a significant effect on the assessment of the assets, liabilities, financial position and/or profits and losses of the Enlarged Group).</p> <table border="1"> <thead> <tr> <th><i>Name</i></th> <th><i>Percentage ownership interest</i></th> </tr> </thead> <tbody> <tr> <td colspan="2"><i>Principal Kier subsidiaries</i></td> </tr> <tr> <td>Allison Homes Eastern Limited</td> <td>100</td> </tr> <tr> <td>Bellwinch Homes Limited</td> <td>100</td> </tr> <tr> <td>Kier Construction Limited</td> <td>100</td> </tr> <tr> <td>Kier Developments Limited</td> <td>100</td> </tr> <tr> <td>Kier Facilities Services Limited</td> <td>100</td> </tr> <tr> <td>Kier Homes Caledonia Limited</td> <td>100</td> </tr> <tr> <td>Kier Homes Limited</td> <td>100</td> </tr> <tr> <td>Kier Homes Northern Limited</td> <td>100</td> </tr> <tr> <td>Kier Infrastructure and Overseas Limited</td> <td>100</td> </tr> <tr> <td>Kier International Limited</td> <td>100</td> </tr> <tr> <td>Kier Limited</td> <td>100</td> </tr> <tr> <td>Kier Minerals Limited</td> <td>100</td> </tr> <tr> <td>Kier National Limited</td> <td>100</td> </tr> <tr> <td>Kier Partnership Homes Limited</td> <td>100</td> </tr> <tr> <td>Kier Project Investment Limited</td> <td>100</td> </tr> <tr> <td>Kier Property Developments Limited</td> <td>100</td> </tr> <tr> <td>Kier Property Limited</td> <td>100</td> </tr> <tr> <td>Kier Services Limited</td> <td>100</td> </tr> <tr> <td>Kier Ventures Limited</td> <td>100</td> </tr> <tr> <td>Twigden Homes Limited</td> <td>100</td> </tr> <tr> <td colspan="2"><i>Principal May Gurney subsidiaries</i></td> </tr> <tr> <td>May Gurney Limited</td> <td>100</td> </tr> <tr> <td>May Gurney Estates Limited</td> <td>100</td> </tr> <tr> <td>May Gurney Recycling CIC</td> <td>100</td> </tr> <tr> <td>Turriff Group Limited</td> <td>100</td> </tr> <tr> <td>Turriff Contractors Limited</td> <td>100</td> </tr> <tr> <td>TOR2 Limited</td> <td>80</td> </tr> <tr> <td>May Gurney Fleet & Passenger Services Limited</td> <td>100</td> </tr> </tbody> </table>	<i>Name</i>	<i>Percentage ownership interest</i>	<i>Principal Kier subsidiaries</i>		Allison Homes Eastern Limited	100	Bellwinch Homes Limited	100	Kier Construction Limited	100	Kier Developments Limited	100	Kier Facilities Services Limited	100	Kier Homes Caledonia Limited	100	Kier Homes Limited	100	Kier Homes Northern Limited	100	Kier Infrastructure and Overseas Limited	100	Kier International Limited	100	Kier Limited	100	Kier Minerals Limited	100	Kier National Limited	100	Kier Partnership Homes Limited	100	Kier Project Investment Limited	100	Kier Property Developments Limited	100	Kier Property Limited	100	Kier Services Limited	100	Kier Ventures Limited	100	Twigden Homes Limited	100	<i>Principal May Gurney subsidiaries</i>		May Gurney Limited	100	May Gurney Estates Limited	100	May Gurney Recycling CIC	100	Turriff Group Limited	100	Turriff Contractors Limited	100	TOR2 Limited	80	May Gurney Fleet & Passenger Services Limited	100
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B.6	Notifiable interests	<p>As at 13 May 2013 (being the latest practicable date prior to the publication of this document), the Company had been notified in accordance with DTR5 of the following interests in its ordinary shares:</p> <table border="0"> <thead> <tr> <th></th> <th style="text-align: center;"><i>Number of ordinary shares</i></th> <th style="text-align: center;"><i>Percentage interest of issued ordinary share capital</i></th> </tr> </thead> <tbody> <tr> <td>Standard Life Investments Limited</td> <td style="text-align: center;">3,650,157</td> <td style="text-align: center;">9.17</td> </tr> <tr> <td>Schroders plc</td> <td style="text-align: center;">2,007,175</td> <td style="text-align: center;">5.04</td> </tr> <tr> <td>Norges Bank</td> <td style="text-align: center;">1,999,188</td> <td style="text-align: center;">5.02</td> </tr> </tbody> </table> <p>Save as disclosed in this section, Kier is not aware of any person who, as at 13 May 2013 (being the latest practicable date prior to the publication of this document), directly or indirectly, has a holding which is notifiable under English law.</p> <p>Kier and the Kier Directors are not aware of any persons who, as at 13 May 2013 (being the latest practicable date prior to the publication of this document), directly or indirectly, jointly or severally, exercise or could exercise control over Kier nor are they aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.</p> <p>Different voting rights/controlling interests Not applicable. None of the Company's major shareholders has different voting rights.</p> <p>Not applicable. To the extent known to the Company, the Company is not directly or indirectly owned or controlled by any person or any group of persons.</p>		<i>Number of ordinary shares</i>	<i>Percentage interest of issued ordinary share capital</i>	Standard Life Investments Limited	3,650,157	9.17	Schroders plc	2,007,175	5.04	Norges Bank	1,999,188	5.02																							
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B.7	Historical key financial information for the Company	<p><i>Kier</i></p> <p>Selected historical financial information relating to Kier which summarises the financial condition of Kier for the three financial years ended 30 June 2012 and for the six months ended 31 December 2011 and 2012 is set out in the following table:</p> <p><i>Statement of financial position</i></p> <table border="0"> <thead> <tr> <th></th> <th style="text-align: center;"><i>Audited financial results for the year ended 30 June 2010</i></th> <th style="text-align: center;"><i>Audited financial results for the year ended 30 June 2011</i></th> <th style="text-align: center;"><i>Audited financial results for the year ended 31 June 2012</i></th> <th style="text-align: center;"><i>Unaudited interim financial results for the six months ended 31 December 2012</i></th> </tr> </thead> <tbody> <tr> <td></td> <td colspan="4" style="text-align: center;"><i>(£m)</i></td> </tr> <tr> <td>Total non-current assets</td> <td style="text-align: center;">175.7</td> <td style="text-align: center;">185.6</td> <td style="text-align: center;">201.4</td> <td style="text-align: center;">212.3</td> </tr> <tr> <td>Total current assets</td> <td style="text-align: center;">942.4</td> <td style="text-align: center;">959.1</td> <td style="text-align: center;">955.0</td> <td style="text-align: center;">885.9</td> </tr> <tr> <td>Total assets</td> <td style="text-align: center;">1,118.1</td> <td style="text-align: center;">1,144.7</td> <td style="text-align: center;">1,156.4</td> <td style="text-align: center;">1,098.2</td> </tr> <tr> <td>Total liabilities</td> <td style="text-align: center;">(1,013.9)</td> <td style="text-align: center;">(980.5)</td> <td style="text-align: center;">(1,002.2)</td> <td style="text-align: center;">(955.6)</td> </tr> <tr> <td>Total net assets</td> <td style="text-align: center;">104.2</td> <td style="text-align: center;">164.2</td> <td style="text-align: center;">154.2</td> <td style="text-align: center;">142.6</td> </tr> </tbody> </table>		<i>Audited financial results for the year ended 30 June 2010</i>	<i>Audited financial results for the year ended 30 June 2011</i>	<i>Audited financial results for the year ended 31 June 2012</i>	<i>Unaudited interim financial results for the six months ended 31 December 2012</i>		<i>(£m)</i>				Total non-current assets	175.7	185.6	201.4	212.3	Total current assets	942.4	959.1	955.0	885.9	Total assets	1,118.1	1,144.7	1,156.4	1,098.2	Total liabilities	(1,013.9)	(980.5)	(1,002.2)	(955.6)	Total net assets	104.2	164.2	154.2	142.6
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Consolidated income statement

	<i>Audited financial results for the year ended 30 June 2010</i>	<i>Audited financial results for the year ended 30 June 2011</i>	<i>Audited financial results for the year ended 30 June 2012</i>	<i>Unaudited interim financial results for the six months ended 31 December 2011</i>	<i>Unaudited interim financial results for the six months ended 31 December 2012</i>
	(£m)				
Revenue	2,098.7	2,178.8	2,069.2	1,045.9	975.6
Less: share of revenue of joint ventures and associates	(42.7)	(55.8)	(38.7)	(15.5)	(55.6)
Group revenue	2,056.0	2,123.0	2,030.5	1,030.4	920.0
Cost of sales	(1,847.0)	(1,945.0)	(1,818.3)	(929.6)	(826.0)
Gross profit	209.0	178.0	212.2	100.8	94.0
Administrative costs	(151.2)	(152.6)	(152.8)	(74.1)	(76.6)
Credit on retirement benefit obligations	16.0	25.7	–	–	–
Movement in provision for fine imposed	(18.0)	15.6	–	–	–
Share of results of joint ventures	(1.3)	0.4	1.3	0.3	0.7
Profit on sales of interests in joint ventures	4.2	5.9	6.7	6.7	5.3
Operating profit	58.7	73.0	67.4	33.7	23.4
Finance income	3.1	3.7	2.6	1.4	1.7
Finance costs	(4.1)	(4.2)	(7.0)	(2.8)	(4.2)
Profit before tax	57.7	72.5	63.0	32.3	20.9
Tax on profit	(17.2)	(10.2)	(7.7)	(6.4)	(3.9)
Profit attributable to equity holders	40.5	62.3	55.3	25.9	17.0
Basic earnings per share (p)	108.2p	166.1p	142.6p	67.1p	41.4p
Diluted earnings per share (p)	107.3p	163.9p	140.1p	66.2p	41.3p

On 28 February 2013, Kier announced its interim results for the six months ended 31 December 2012, reporting revenue of £975.6 million (2011: £1,045.9 million), profit from operations of £23.4 million (2011: £33.7 million), profit before tax of £20.9 million (2011: £32.3 million) and adjusted basic earnings per share of 53.5 pence (2011: 70.3 pence).

There has been no significant change to Kier's financial condition and operating results during or subsequent to the period covered by the historical key financial information on Kier set out in this section.

May Gurney

Selected historical financial information relating to May Gurney which summarises the financial condition of May Gurney for the three financial years ended 31 March 2012 and for the six months ended 30 September 2012 is set out in the following table.

		Consolidated statement of financial position			
		<i>Audited financial results for the year ended 31 March 2010</i>	<i>Audited financial results for the year ended 31 March 2011</i>	<i>Audited financial results for the year ended 31 March 2012</i>	<i>Unaudited interim financial results for the six months ended 30 September 2012</i>
		(£m)			
	Total non-current assets	67.6	93.6	171.5	186.2
	Total current assets	127.5	151.0	147.7	146.7
	Total assets	195.1	244.6	319.2	332.9
	Total liabilities	(121.7)	(160.5)	(226.6)	(248.9)
	Total net assets	73.4	84.1	92.6	84.0
		Consolidated income statement			
		<i>Audited financial results for the year ended 31 March 2010</i>	<i>Audited financial results for the year ended 31 March 2011</i>	<i>Audited financial results for the year ended 31 March 2012</i>	<i>Unaudited interim financial results for the six months ended 30 September 2012</i>
		(£m)			
	Revenue	483.1	571.4	695.3	338.9
	Cost of sales	(434.0)	(513.4)	(625.2)	(336.4)
	Gross profit	49.1	58.0	70.1	17.1
	Operating expenses	(30.2)	(35.0)	(44.2)	(20.2)
	Operating profit before exceptional items	18.9	23.0	25.9	(3.1)
		Consolidated income statement			
		<i>Audited financial results for the year ended 31 March 2010</i>	<i>Audited financial results for the year ended 31 March 2011</i>	<i>Audited financial results for the year ended 31 March 2012</i>	<i>Unaudited interim financial results for the six months ended 30 September 2012</i>
		(£m)			
	Exceptional items	–	(3.4)	(4.9)	–
	Finance income	0.4	0.4	0.3	0.1
	Finance costs	(0.9)	(1.2)	(2.0)	(1.6)
	Profit before tax	(18.4)	(18.8)	(19.3)	(4.6)
	Tax on profit	(5.3)	(5.5)	(5.5)	1.0
	Profit attributable to equity holders	13.1	13.3	13.8	(3.6)
	Basic earnings per share (p)	19.58p	19.82p	20.52p	(5.53p)
	Diluted earnings per share (p)	19.25p	19.34p	19.91p	(5.53p)
	<p>During HY2013, May Gurney generated revenues of £338.9 million (HY2012 £324.7 million) and underlying EBITA of £12.6 million (HY2012: £14.7 million), achieving an EBITA margin of 3.7 per cent.</p> <p>Revenues and the operating margin were impacted by bad weather during the summer of 2012, provisions for Scotia Gas Networks' reduction in outsourcing, discontinuing May Gurney's Facility Services business, the poor performance of two MaGOS™ environmental services contracts and a short-term downturn in rail services. May Gurney remained a cash generative business with cash from continuing operations of £15.4 million (HY2012: £17.7 million).</p>				

		<p>Since 4 December 2012, when the results for HY2013 were announced, May Gurney has continued to take actions to drive operational efficiencies and profitability on the MaGOS™ contracts and has remained in close dialogue with the relevant contract counterparties with the aim of improving the financial performance of those contracts. Whilst progress has been made, the MaGOS™ contracts as a whole will, as expected, incur a significant loss for the year ended 31 March 2013 and much remains to be achieved in order to return the financial performance of the underperforming contracts to an acceptable level.</p> <p>During FY2012, total revenues were £695.3 million (FY2011: £571.4 million, FY2010: £483.1 million) with EBITA of £30.1 million (FY2011: £25.1 million, FY2010: £29.2 million) and an EBITA margin of 4.3 per cent. (FY2011: 4.4 per cent., FY2010: 4.6 per cent.). The growth in revenue between FY2012 and FY2011 was primarily driven by the full year effect of the acquisition of Turriff Group Limited, strong performances in May Gurney's long-term utility contracts, the ramp-up of new Environmental Services contracts and increased local authority highways maintenance. The operating margin for the same period was affected by newly won Environmental Services contracts taking longer to reach their expected margins, a disappointing performance from Facility Services and a small number of underperforming contracts in Scotland (which have been discontinued). The growth in revenue between FY2010 and FY2011 was primarily driven by the Public Sector business, with growth in all three services sectors. The Public Sector operating margin over the same period decreased due to a high level of bidding and mobilisation costs incurred in the year and a higher proportion of new contracts, but this was largely set off by a growth in the Regulated Sector operating margin due to strong operational performance.</p> <p>May Gurney had net debt (cash less borrowings and finance lease obligations) of £76.9 million, including finance leases as at 30 September 2012 (30 September 2011: £15.2 million net funds). May Gurney's net debt at the end of FY2012 was £49.2 million, including finance leases (FY2011: £10.9 million net funds, FY2010: £29.2 million net funds). The increase in net debt over the period covered by the key historical financial information was due to an increase in finance leases. The obligation to repay the capital and interest related to these finance leases is contained within the contracts where the assets are utilised. May Gurney's order book was £1.5 billion for HY2013, £1.5 billion in FY2012, £1.4 billion in FY2011 and £1.7 billion in FY2010.</p> <p>Save as set out below, there has been no significant change to May Gurney's financial condition and operating results during or subsequent to the period covered by the historical key financial information on May Gurney set out in this section.</p>
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		On 12 April 2013, May Gurney confirmed that it had been notified by Norfolk County Council that its formal appeal against the decision not to select it for the short list in relation to the re-bid for Norfolk County Council's highway and related services procurement contract had been rejected.																																																							
B.8	Selected key pro forma financial information	<p>Selected pro forma financial information which illustrates the effect of the Acquisition on the Kier Group's net assets as if it had occurred on 31 December 2012 is set out below. The unaudited pro forma financial information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent the Kier Group's or the Enlarged Group's actual financial position or results.</p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;"><i>Kier as at 31 December 2012 (unaudited)</i></th> <th style="text-align: right;"><i>May Gurney as at 30 September 2012 (unaudited)</i></th> <th style="text-align: right;"><i>Adjustments (unaudited)</i></th> <th style="text-align: right;"><i>Pro forma as at 31 December 2012 (unaudited)</i></th> </tr> <tr> <th></th> <th colspan="3" style="text-align: center;"><i>(£m)</i></th> <th></th> </tr> </thead> <tbody> <tr> <td>Total non-current assets</td> <td style="text-align: right;">212.3</td> <td style="text-align: right;">186.2</td> <td style="text-align: right;">127.5</td> <td style="text-align: right;">526.0</td> </tr> <tr> <td>Total current assets</td> <td style="text-align: right;">885.9</td> <td style="text-align: right;">144.5</td> <td style="text-align: right;">(2.6)</td> <td style="text-align: right;">1,027.8</td> </tr> <tr> <td>Assets included in discontinued operations</td> <td></td> <td style="text-align: right;">2.2</td> <td></td> <td style="text-align: right;">2.2</td> </tr> <tr> <td>Total assets</td> <td style="text-align: right;">1,098.2</td> <td style="text-align: right;">332.9</td> <td style="text-align: right;">124.9</td> <td style="text-align: right;">1,556.0</td> </tr> <tr> <td>Total current liabilities</td> <td style="text-align: right;">(755.4)</td> <td style="text-align: right;">(178.4)</td> <td></td> <td style="text-align: right;">(933.8)</td> </tr> <tr> <td>Total non-current liabilities</td> <td style="text-align: right;">(200.2)</td> <td style="text-align: right;">(56.5)</td> <td style="text-align: right;">(50.0)</td> <td style="text-align: right;">(306.7)</td> </tr> <tr> <td>Liabilities included in discontinued operations</td> <td></td> <td style="text-align: right;">(14.0)</td> <td></td> <td style="text-align: right;">(14.0)</td> </tr> <tr> <td>Total liabilities</td> <td style="text-align: right;">(955.6)</td> <td style="text-align: right;">(248.9)</td> <td style="text-align: right;">(50.0)</td> <td style="text-align: right;">(1,254.5)</td> </tr> <tr> <td>Total net assets</td> <td style="text-align: right;">142.6</td> <td style="text-align: right;">84.0</td> <td style="text-align: right;">74.9</td> <td style="text-align: right;">301.5</td> </tr> </tbody> </table>		<i>Kier as at 31 December 2012 (unaudited)</i>	<i>May Gurney as at 30 September 2012 (unaudited)</i>	<i>Adjustments (unaudited)</i>	<i>Pro forma as at 31 December 2012 (unaudited)</i>		<i>(£m)</i>				Total non-current assets	212.3	186.2	127.5	526.0	Total current assets	885.9	144.5	(2.6)	1,027.8	Assets included in discontinued operations		2.2		2.2	Total assets	1,098.2	332.9	124.9	1,556.0	Total current liabilities	(755.4)	(178.4)		(933.8)	Total non-current liabilities	(200.2)	(56.5)	(50.0)	(306.7)	Liabilities included in discontinued operations		(14.0)		(14.0)	Total liabilities	(955.6)	(248.9)	(50.0)	(1,254.5)	Total net assets	142.6	84.0	74.9	301.5
	<i>Kier as at 31 December 2012 (unaudited)</i>	<i>May Gurney as at 30 September 2012 (unaudited)</i>	<i>Adjustments (unaudited)</i>	<i>Pro forma as at 31 December 2012 (unaudited)</i>																																																					
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B.9	Profit forecast and estimate	Not applicable. Neither Kier nor May Gurney has made a profit forecast or estimate.																																																							
B.10	Qualifications in the audit reports	Not applicable. The audit reports on the historical financial information contained in, or incorporated by reference in, this document are not qualified.																																																							
B.11	Working capital	<p>Not applicable. Kier is of the opinion that the working capital available to the Kier Group is sufficient for its present requirements, that is for at least the next 12 months from the date of publication of this document.</p> <p>Kier is also of the opinion that the working capital available to the Enlarged Group is sufficient for its present requirements, that is for at least the next 12 months from the date of publication of this document.</p>																																																							

Section C – Securities

Element	Disclosure requirement	Disclosure
C.1	Type and the class of the securities	Kier will issue 14,714,445 shares of 1 pence each in the capital of Kier pursuant to the Acquisition. The ISIN the New Kier Shares will trade under is GB0004915632.
C.2	Currency of the securities issue	The New Kier Shares are priced in Pounds sterling, and will be quoted and traded in Pounds sterling.
C.3	Shares issued/value per share	As at 13 May 2013 (being the latest practicable date before the publication of this document), the Company has in issue 39,810,675 fully paid ordinary shares of 1 pence each.

C.4	Description of the rights attaching to the securities	<p>The New Kier Shares will be issued credited as fully paid and will rank <i>pari passu</i> in all respects with the Kier Shares in issue at the time the New Kier Shares are issued pursuant to the Acquisition, including in relation to any dividends or other distributions with a record date falling after the Effective Date.</p> <p>Subject to any special rights, restrictions or prohibitions as regards voting for the time being attached to any Kier Shares (for example, in the case of joint holders of a share, the only vote which will count is the vote of the person whose name is listed before the other voters on the register for the share), Kier Shareholders shall have the right to receive notice of and to attend and vote at general meetings of Kier. Subject to the provisions of the Companies Act, Kier may from time to time declare dividends and make other distributions on the Kier Shares. Kier Shareholders are entitled to participate in the assets of Kier attributable to their shares in a winding-up of Kier or other return of capital, but they have no rights of redemption.</p>
C.5	Restrictions on free transferability of the securities	Not applicable. There are no restrictions on the free transferability of the Kier Shares.
C.6	Admission/regulated markets where the securities are traded	Application will be made to the FCA for the New Kier Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for the New Kier Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission of the New Kier Shares will become Effective, and that dealings in the New Kier Shares will commence, on the Effective Date which, subject to the satisfaction of certain conditions, including the sanction of the Scheme by the Court, is expected to be on 5 July 2013.
C.7	Dividend policy	<p>On 28 February 2013, the Kier Board announced its intention to pay an interim dividend of 21.5 pence per Kier Share (the "Kier Interim Dividend"). The Kier Interim Dividend will be paid on 17 May 2013 to Kier Shareholders on the register of members on 8 March 2013. The New Kier Shares to be issued pursuant to the Acquisition will not carry any entitlement to the Kier Interim Dividend.</p> <p>It is expected that any final dividend of the Enlarged Group for the year ending 30 June 2013 will be declared at its annual general meeting in November 2013 and paid in November or December 2013 and that any interim dividend for the year ending 30 June 2014 will be declared in February 2014 and paid in May 2014. Assuming that the Acquisition will be completed in July, as currently anticipated, the first dividend in relation to the Enlarged Group is expected to be declared at the time of the full year results for the full year ending 30 June 2013.</p> <p>The Board of the Enlarged Group will adopt Kier's current progressive dividend policy and will decide the absolute level of any future dividends taking into account the Enlarged Group's underlying earnings, cash flows, capital investment plans and the prevailing market outlook.</p>

	It is also intended that the Enlarged Group will offer a scrip dividend scheme for both annual and interim dividends, allowing for the allotment of ordinary shares in lieu of cash dividends to those shareholders who elect to participate.
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<i>Section D – Risks</i>		
Element	Disclosure requirement	Disclosure
D.1	Key information on the key risks that are specific to the Company or its industry	<p>Key information on the key risks specific to the Kier Group, the May Gurney Group and their industry are:</p> <ul style="list-style-type: none"> • The global economy has deteriorated in recent years and the outlook remains uncertain. This deterioration has affected countries worldwide, including the United Kingdom and other countries in which the Kier Group currently operates, and in which, following the Acquisition, the Enlarged Group will operate. If either or both of the United Kingdom's and the world's economies continue to deteriorate, there may be volatility in exchange rates, increases in exchange rates or inflation and the business, financial condition and results of the Kier Group, the May Gurney Group or the Enlarged Group may be adversely affected. • Contractors compete for new work through a process of competitive tendering or bilateral negotiation. The contractor's reputation, prior experience with the client and pricing will all have a bearing on gaining new work. The failure by the Kier Group, the May Gurney Group or, following the Acquisition, the Enlarged Group to compete effectively on these criteria could reduce their revenue, profitability or cash flow. • Kier and May Gurney are, and, following the Acquisition, the Enlarged Group will be, subject to numerous laws, regulations and policies concerning protection of health, safety and the environment. The impact of such laws, regulations and policies can vary greatly from site to site, depending on, among other things, the site's environmental condition and the present and former uses of the site. Environmental laws, regulations and policies may result in delays, may give rise to substantial compliance, remediation and/or other costs, and can prohibit or severely restrict development in certain locations. • If Kier, May Gurney or, following the Acquisition, the Enlarged Group is unable to assess or estimate accurately the overall risks, revenues or costs on a particular contract, then a lower than anticipated profit may be achieved or a loss incurred on such contract. A significant proportion of the Enlarged Group's business will depend for its profit on costs being controlled and projects being completed on time, such that costs are contained within the pricing structure of the relevant contract. As the business that the Enlarged Group will carry on increasingly comprises large-scale and complex contracts, the potential impact of these risks will also increase.

		<ul style="list-style-type: none"> • Kier and, following the Acquisition, the Enlarged Group may be exposed to disputes and potentially significant litigation including, but not limited to, breach of contract and contractual disputes arising from the work it completes or has undertaken for its customers. Insurance, if any, may be insufficient to cover the particular claim or loss arising from such disputes and any significant litigation may adversely affect Kier's or, following the Acquisition, the Enlarged Group's business, financial condition and results of operations or cause Kier or, following the Acquisition, the Enlarged Group significant reputational harm. • The Kier Group employs and, following the Acquisition, the Enlarged Group will employ a large workforce across several geographic locations. Some of Kier's and, following the Acquisition, the Enlarged Group's employees may be represented by trade unions. From time to time, there may be disputes with employees or the trade unions to which such employees are affiliated. There can be no guarantee or assurance that any such disputes would not materially and adversely affect the future prospects, financial condition or results of operations of Kier and, following the Acquisition, the Enlarged Group.
D.3	Key information on the key risks that are specific to the securities	<p>Key information on the key risks specific to the New Kier Shares are:</p> <ul style="list-style-type: none"> • The projected acquisition synergy benefits may fail to materialise or be materially lower than have been estimated, which would have a significant impact on the profitability of the Enlarged Group in the future. • Even if a material adverse change to May Gurney's business or prospects were to occur prior to completion of the Acquisition, in certain circumstances, Kier may not be able to invoke the Conditions and terminate the Acquisition, which could reduce the value of Kier Shares. • Kier Shareholders and prospective Kier Shareholders should be aware that the value of an investment in Kier Shares may go down as well as up and any fluctuations may be material and may not reflect the underlying asset value. For example, following the Acquisition, operating results and prospects from time to time may be below expectations of market analysts and investors, which could result in a decline in the market price of the Kier Shares. • Any future issue of shares will further dilute the holdings of shareholders of the Enlarged Group and could adversely affect the market price of Kier Shares. For example, an additional offering, or significant sales of shares by major shareholders, could have a material adverse effect on the market price of Kier Shares as a whole. • After the Scheme becomes Effective, Kier Shareholders and May Gurney Shareholders will own a smaller percentage of the Enlarged Group than they currently own of Kier and May

		Gurney, respectively. As a consequence, voting power which can be exercised and the influence which may be exerted by the shareholders in respect of the Enlarged Group will be reduced.
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<i>Section E – Offer</i>		
Element	Disclosure requirement	Disclosure
E.1	Total net proceeds and costs of the issue	The total costs, charges and expenses (including fees and commissions) (exclusive of recoverable VAT) payable by the Company in connection with the Acquisition are estimated to amount to approximately £17.5 million. As set out below, the Company is not receiving any proceeds.
E.2a	Reasons for the offer/use of the proceeds Net amount of the proceeds	The New Kier Shares will be issued to May Gurney Shareholders as part of the consideration under the terms of the proposed Acquisition. Under the terms of the Acquisition, May Gurney Shareholders may elect to vary the proportions of New Kier Shares and cash consideration they receive in respect of their holdings of May Gurney Shares, via a Mix and Match Facility, subject to equal and opposite elections made by other May Gurney Shareholders. Kier and May Gurney will not receive any proceeds as a result of the proposed Acquisition. It is intended that the Acquisition will be effected by way of a Court sanctioned scheme of arrangement of May Gurney under Part 26 of the Companies Act pursuant to which Kier will acquire the entire issued and to be issued ordinary share capital of May Gurney. The Acquisition will bring together two businesses with complementary service offerings to create one of the UK’s leading integrated service providers to the local authority and regulated utility sectors. Not applicable. The Company is not receiving any proceeds save for the May Gurney Shares which it will acquire as a result of the Acquisition.
E.3	Terms and conditions of the offer	Under the terms of the Acquisition, May Gurney Shareholders will be entitled to receive for each Scheme Share: <ul style="list-style-type: none"> • 0.2095 New Kier Shares; and • 50 pence in cash. Under the terms of the Acquisition, May Gurney Shareholders may elect to vary the proportions of New Kier Shares and cash consideration they receive in respect of their holdings of May Gurney Shares, via a Mix and Match Facility. For example, a May Gurney Shareholder who elects to receive all cash as consideration will only receive such all cash consideration to the extent other May Gurney Shareholders elect to receive consideration in New Kier Shares only. A May Gurney Shareholder may complete an election to receive a mix of cash and New Kier Shares. However, such election is subject to equal and opposite elections by other May Gurney Shareholders. Irrespective of elections under the Mix and Match Facility, the cash consideration payable by Kier for the Acquisition will

		<p>always be approximately £35.1 million and the holdings of current Kier Shareholders will be diluted to the extent that they hold 73 per cent. of the issued share capital of Kier after the issue and allotment of the New Kier Shares.</p> <p>If a May Gurney Shareholder elects to receive all New Kier Shares instead of cash, or elects to receive all cash instead of New Kier Shares, under the Mix and Match Facility, that May Gurney Shareholder will receive, assuming opposite and equal elections are made by other May Gurney Shareholders:</p> <ul style="list-style-type: none"> • for a cash election in respect of a May Gurney Share: 301.2 pence in cash; and • for a share election in respect of a May Gurney Share: 0.2512 of a New Kier Share. <p>The amounts outlined above are equivalent to a May Gurney Shareholder receiving 0.2095 of a New Kier Share and 50 pence in cash, based on the Closing Price of 1,199 pence per Kier Share on 13 May 2013.</p> <p>May Gurney Shareholders will also be entitled to receive a second interim dividend of 5.6 pence per May Gurney Share (the “May Gurney Second Interim Dividend”). The May Gurney Second Interim Dividend, which will be conditional upon the completion of the Acquisition, will be payable after the Effective Date to May Gurney Shareholders on the register of members at the Scheme Record Time. In the event that the Scheme becomes Effective, no final dividend will be paid in respect of May Gurney’s financial year ended 31 March 2013.</p> <p>The Acquisition is conditional upon, among other things:</p> <ul style="list-style-type: none"> • approval of the Scheme and related resolutions by the requisite majorities of May Gurney Shareholders at the Scheme Meeting and the May Gurney General Meeting; • the sanction of the Scheme and confirmation of the associated Capital Reduction by the Court at the Court Hearings; • the approval of the Resolutions by the Kier Shareholders at the Kier General Meeting; and • the OFT indicating, in terms reasonably satisfactory to Kier, that the Acquisition or any matter arising therefrom or related thereto will not be referred to the Competition Commission. <p>Kier has received irrevocable undertakings from May Gurney Shareholders holding approximately 24.25 per cent. of May Gurney’s existing issued share capital to vote, or procure the vote, in favour of the resolutions relating to the Acquisition to be proposed at the Scheme Meeting and the May Gurney General Meeting, and from Kier Shareholders and Kier Directors holding approximately 6.16 per cent. of Kier’s existing issued share capital to vote in favour of the resolutions to be proposed at the Kier General Meeting relating to the Acquisition.</p>
E.4	Interests that are material to the issue/conflicting interests	Not applicable. There are no interests, known to the Company, material to the issue of New Kier Shares or which are conflicting interests.

E.5	Name of the offeror/lock-up agreements	Not applicable. There are no entities or persons offering to sell the New Kier Shares, and there are no lock-up agreements.
E.6	Dilution	If the Scheme becomes Effective, it will result in the issue of 14,714,445 New Kier Shares to May Gurney Shareholders, which would result in May Gurney Shareholders holding approximately 27 per cent. of the Enlarged Group. This will result in Kier's issued share capital increasing by approximately 37 per cent. If the Scheme becomes Effective, Kier Shareholders will suffer an immediate dilution as a result of the Acquisition, following which they will hold approximately 73 per cent. of the issued share capital of Kier.
E.7	Estimated expenses charged to the investor	Not applicable. No expenses will be directly charged to the investor by Kier.

RISK FACTORS

Any investment in Kier and the New Kier Shares carries a number of risks. Prospective investors should review this prospectus carefully and in its entirety (together with any documents incorporated by reference in it) and consult with their professional advisers before acquiring any New Kier Shares. You should carefully consider the risks and uncertainties described below, together with all other information in this document and the information incorporated into this document by reference, before making any investment decision. Prospective investors should note that the risks relating to the Kier Group, its identity and the New Kier Shares summarised in the section of this document headed “Summary” are the risks that the Kier Directors believe to be most essential to an assessment by a prospective investor of whether to consider an investment in the New Kier Shares.

A number of factors affect the operating results, financial condition and prospects of each of the Kier Group and the May Gurney Group and, following the Effective Date, will affect the Enlarged Group. This section describes risk factors considered by the Kier Directors to be material in relation to the Kier Group and the May Gurney Group as discrete groups. These risks will, following the Effective Date, be equally relevant to the Enlarged Group.

However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to the Kier Directors, or which they currently deem immaterial, may also have an adverse effect on the Kier Group’s and May Gurney Group’s and, following completion of the Acquisition, the Enlarged Group’s operating results, financial condition or prospects. If any such risks were to materialise, the price of Kier Shares could decline as a consequence and investors could lose all or part of their investment.

The information given is as of the date of this document and, except as required by the FCA, the London Stock Exchange, the Listing Rules, the Prospectus Rules or any other applicable law, will not be updated. Any forward-looking statements are made subject to the reservations specified under “Forward-Looking Statements” on page 29 of this document.

Risks relating to the Kier Group and/or the May Gurney Group, and, if the Scheme becomes Effective, the Enlarged Group

1 Operating in a challenging economic environment

The global economy has deteriorated in recent years and the outlook remains uncertain. This deterioration has affected countries worldwide, including the United Kingdom and other countries in which the Kier Group currently operates, and in which, following the Acquisition, the Enlarged Group will operate. Global concerns over issues such as inflation, geopolitical issues, terrorism, energy costs, commodity costs, the availability and cost of credit, sovereign debt levels, and the possible break-up of the Eurozone, have contributed to and diminished expectations for national and global economies in the medium to long term. In the UK, credit growth remains subdued with lending conditions applicable to individuals and companies. In addition, the impact of the recent extension to the asset purchase programme remains uncertain, as do the effects of the introduction of the Funding for Lending Scheme and the “UK Guarantees” scheme for infrastructure funding.

If the United Kingdom’s and/or the world’s other economies continue to deteriorate, there may be volatility in exchange rates, increases in exchange rates or inflation and the business, financial condition and results of the Kier Group, the May Gurney Group or the Enlarged Group may be adversely affected.

The current level of uncertainty surrounding economic recovery and the pace of growth may also negatively affect the level of demand from existing and prospective customers. Additional factors that could influence customer demand include access to credit, central and local government budgetary constraints, unemployment rates and consumer confidence. These factors affect customers’ ability and confidence to place orders and may lead to a rise in the number of customers who are not willing to pay for the services, which, in turn, may adversely affect the revenues and results of operations of the Kier Group, the May Gurney Group and/or the Enlarged Group.

Furthermore, in the event that the Enlarged Group continues to expand its business, the nature of its construction activities may increasingly include large, complex and higher-risk contracts (in particular, to carry out civil and infrastructure projects), in addition to traditional UK construct and build contracts. Whilst these large-scale projects should have the benefit of higher margins, they also require prudent contract risk management. In addition, these contracts may also require the investment of more capital and the completion of more work between scheduled payment dates than may otherwise be required by a more traditional construct and build contract. Kier manages, and, following the Acquisition, the Enlarged Group will manage, any potential exposure, for example, by regularly updating income flows, cash forecasts and balances so that Kier and, following the Acquisition, the Enlarged Group have accurate and up-to-date information on its financial position and the performance of its contracts. If, however, this process is not appropriately managed, then the financial position of the Enlarged Group may be materially and adversely affected.

2 *Competition*

Contractors compete for new work through a process of competitive tendering or bilateral negotiation. The contractor's reputation, prior experience with a client and pricing will all have a bearing on gaining new work. The failure by the Kier Group, the May Gurney Group or, following the Acquisition, the Enlarged Group to compete effectively on these criteria could reduce their revenue, profitability or cash flow.

The Enlarged Group would compete with international, national and local construction, support services and property groups. Some of these groups are larger than the Enlarged Group and may have greater financial, technical and operating resources or capabilities. The sectors in which the Enlarged Group would operate are highly competitive on the basis of both price and service. There can be no assurances as to the competitiveness of the Enlarged Group or that the Enlarged Group will win any additional market share from any of its competitors or maintain the current aggregate market share of the Kier Group and the May Gurney Group. As a result of this competition, the Enlarged Group may fail to win new contracts in its chosen growth markets, may be unable to renew current contracts or may fail to win contracts which are sufficiently profitable to maintain or improve the financial condition of the Enlarged Group.

3 *The regulatory environment in which Kier and May Gurney operate and, following the Acquisition, the Enlarged Group would operate may change*

Each of the jurisdictions in which Kier and May Gurney operate and, following the Acquisition, the Enlarged Group would operate requires compliance with a significant number of regulations and administrative requirements and policies which relate to, among other matters, national, local and other laws, planning, developments, building, land use, health and safety, environment and employment. These regulations, requirements and policies often provide broad discretion to the administering authorities. Changes in relevant law, regulations or policies, or the interpretation thereof, or delays in such interpretations being delivered, may delay or increase the cost of projects and Kier's or May Gurney's business generally or, following the Acquisition, the Enlarged Group's business.

It is expected that increasingly stringent regulatory requirements will be imposed in the future. Although the effect of these requirements cannot be predicted, compliance with them could cause delays and increase Kier's, May Gurney's and, following the Acquisition, the Enlarged Group's costs. This could have a material adverse effect on the financial condition and operating results of the businesses of the Kier Group and the May Gurney Group and, following the Acquisition, the Enlarged Group.

Therefore, it is the policy of the Kier Group and the May Gurney Group, and, following the Acquisition, will be the policy of the Enlarged Group, to require that subsidiaries, employees, suppliers and sub-contractors comply with applicable laws, regulations and standards. In addition, training is provided by Kier and May Gurney, and, following the Acquisition, will be provided by the Enlarged Group, to its employees on relevant areas of applicable law and regulation.

4 *Kier and May Gurney and, following the Acquisition, the Enlarged Group will be required to comply with stringent health, safety and environmental laws*

Kier and May Gurney are, and, following the Acquisition, the Enlarged Group will be, subject to numerous laws, regulations and policies concerning protection of health, safety and the environment. The impact of

such laws, regulations and policies can vary greatly from site to site, depending on, among other things, the site's environmental condition and the present and former uses of the site. Environmental laws, regulations and policies may result in delays, may give rise to substantial compliance, remediation and/or other costs and can prohibit or severely restrict development in certain locations.

For example, Kier operates a coal mine in Greenburn, East Ayrshire. Mining activities, in particular, are generally subject to stringent environmental and health and safety law and regulation due to the potential environmental hazards arising from the extraction process. Therefore, compliance with laws, regulations and policies concerning protection of health, safety and the environment is crucial to the successful operation of this business.

In relation to May Gurney, there are potentially contaminative activities that have been undertaken in the past at its bitumen plant. May Gurney instigated site investigations be undertaken into soil and groundwater conditions in 2001 and 2005. Remediation work was recommended and carried out in 2007 by pumping and treating groundwater, and no remedial work has been necessary since 2007. Whilst the remediation work resulted in a reduction of the recorded groundwater contaminants, May Gurney cannot be certain as to the presence or scale of any other potential contaminants at the bitumen plant. Therefore, clean-up activities may be required in the future if it is found that May Gurney is in breach of any environmental law or regulation and it is unclear what the related cost of any such activity might be.

The consequences of breach of environmental law and regulation can be severe. Kier, May Gurney and, following the Acquisition, the Enlarged Group may be liable for losses associated with environmental hazards, may have their licences and permits withdrawn or suspended or may be forced to undertake extensive remedial clean-up action or to pay for government-ordered remedial clean-up actions, even in cases where such hazards have been caused by any previous or subsequent owners or operators of the property, by any past or present owners of adjacent properties or by acts of vandalism by trespassers. Any such losses, withdrawals, suspensions, actions or payments may have a material adverse effect on the reputation, business, results of operations and financial condition of Kier, May Gurney and, following the Acquisition, the Enlarged Group.

5 *Impact of a major safety incident*

The nature of the business to be conducted by the Enlarged Group requires the adoption and maintenance of a rigorous health and safety programme. The Enlarged Group will work on a number of significant and high-profile projects and therefore its health and safety performance will be critical to the success of all areas of the Enlarged Group's business. The Kier Group and the May Gurney Group take the management of both operational and occupational safety seriously. Any failure in health and safety performance which results in a major or significant health and safety incident is likely to be costly for the relevant business in terms of potential liabilities incurred as a result. If the Enlarged Group's disaster recovery procedures are found to be insufficient to mitigate the harm that may result from such a disaster or disruption, it could have an adverse effect on the Enlarged Group's future prospects, financial condition and results of operations. Furthermore, such a failure could generate significant adverse publicity and have a negative impact on the Enlarged Group's reputation and its ability to win new business, which, in turn, could adversely affect its operating, financial and share price performance.

6 *Contract risk*

If Kier, May Gurney or, following the Acquisition, the Enlarged Group is unable to assess or estimate accurately the overall risks, revenues or costs on a particular contract, then a lower than anticipated profit may be achieved or a loss incurred on such contract. A significant proportion of the Enlarged Group's business will depend for its profit on costs being controlled and projects being completed on time, such that costs are contained within the pricing structure of the relevant contract.

As the business that the Enlarged Group will carry on increasingly comprises large-scale and complex contracts, the potential impact of these risks will also increase. For example, the risk of significant claims arising between the Kier Group and its customers is likely to be greater in the context of large civil and infrastructure projects as compared to lower-value building contracts. There can be no assurance given as to

the value of any such claims and no guarantee that customers will settle or pay amounts to the Kier Group in respect of any such claims in a timely manner or at all. Similarly, there can be no assurance as to the number or quantum of any such claims that the Kier Group may face in the future. Large-value claims, whether brought by or against the Kier Group, may have a material and adverse impact on the Enlarged Group's cash flows and its business, financial condition and results of operations.

Cost overruns, whether due to inefficiency, poor design where the contractor has design responsibilities, faulty estimates, cost escalation, and/or cost overruns by sub-contractors or other factors, result in lower profit or a loss on a project. A significant number of contracts are based in part on cost estimates that are subject to a number of assumptions, particularly when a contract is tendered for. If estimates of the overall risks, revenues or costs prove inaccurate or circumstances change, then a lower profit or a loss on the contract may result. For example, May Gurney operates two long-term MaGOS contracts, both of which are currently operating at a loss. May Gurney has been taking steps to mitigate its losses on these contracts and, following the Acquisition, the Enlarged Group would also continue to seek to improve their overall performance. However, there can be no guarantee as to the effectiveness of a mitigation plan with respect to any contract. Any failure effectively to mitigate the risks associated with, or the losses arising from, underperforming contracts may have a material and adverse effect on the business, financial condition and results of operation of the Enlarged Group.

In addition, failure to follow best practice guidelines could mean that projects are not delivered to time, cost, quality or appropriate health and safety and environmental standards and therefore do not meet customer expectation or expectations of the relevant third party. Failure to follow the Enlarged Group's standards, procedures and guidelines could adversely affect the Enlarged Group's reputation and/or expose the Enlarged Group to financial liabilities and adversely affect the operational, financial and share price performance.

To manage this risk, Kier has an extensive contract risk framework to ensure that contract risk is assessed before a contract is entered into. Tenders for contracts to be entered into by any of Kier's businesses are, and, following the Acquisition, the Enlarged Group's will be, subject to an extensive internal approval process to ensure that contractual risks are identified and, wherever practicable, mitigated.

These reviews will also assist the Enlarged Group to understand any risks associated with its contractual counterparts, for example, sub-contractors, suppliers or joint venture partners. Failure in any of these counterparties could, for example, result in delays in collection of amounts or services due to the Enlarged Group and, consequently, disruption or delays to contracts.

7 *Provision of construction services is a complex activity which can involve disputes with third parties and there is no guarantee that a substantial third-party claim will be covered by insurance*

Kier and, following the Acquisition, the Enlarged Group may be exposed to disputes and potentially significant litigation including, but not limited to, breach of contract and contractual disputes arising from the work it completes or has undertaken for its customers. Insurance, if any, may be insufficient to cover the particular claim or loss arising from such disputes and any significant litigation may adversely affect Kier's or, following the Acquisition, the Enlarged Group's business, financial condition and results of operations or cause Kier or, following the Acquisition, the Enlarged Group significant reputational harm.

For example, in October 2001, Kier entered into a contract with the trustees for the partners in the Castlepoint Limited Partnership ("Castlepoint") to design and build a retail centre and associated car park in Bournemouth. In 2006, following deterioration of the site, Kier informed Castlepoint that reinstatement work on the car park and associated walkways was necessary. Since then, Kier and Castlepoint have been negotiating the terms on which Kier would undertake this work, together with the level of compensation payable to Castlepoint as a result of defects in the original works and associated claims.

Although Kier expects shortly to agree the terms of an arrangement with Castlepoint under which the amounts owed to Castlepoint by Kier and amounts due to Kier from third parties (including sub-contractors of Kier in relation to the original works) would be covered by various insurance policies, there can be no guarantee that any such arrangement will be entered into. If the arrangement is not entered into, then it is

likely that the reinstatement work would not be covered by insurance and there can be no guarantee that claims will not be made against the Kier Group which would materially and adversely affect the business, financial condition and results of operations of the Kier Group and, therefore, the Enlarged Group.

More generally, whilst Kier and May Gurney maintain, and, following the Acquisition, the Enlarged Group will maintain, commercial insurances in an amount the Kier Directors believe is appropriate against risks commonly insured against by persons carrying on similar businesses, there is no guarantee that it will be able to obtain similar levels of cover on acceptable terms in the future.

In addition, even with such insurance in place, the risk remains that the Enlarged Group may incur liabilities to clients and other third parties which exceed the limits of such insurance cover or are not covered by it. Should such a situation arise, it may have a material adverse impact on the business, results of operations, financial condition or prospects of the Enlarged Group.

8 *Procurement delay or failure*

Certain Government-related projects on which the Enlarged Group may work will require relevant approvals from Government ministers or senior civil servants. It is possible that, due to difficulties obtaining such approvals, projects may be delayed before procurement has started, during the tender stage or during the period between the appointment of a preferred bidder and the exchange of contracts. These matters are likely to be beyond the control of the Enlarged Group and any resulting delays could affect future revenue streams of the Enlarged Group and have an adverse impact on the Enlarged Group's businesses, results of operations and financial condition.

9 *Dependence on the continued viability of contractors, sub-contractors and other service providers*

Kier and May Gurney are, and, following the Acquisition, the Enlarged Group will be, reliant on their supply chain as they are required to use third-party contractors to provide certain services. If a sub-contractor or supplier of goods or services fails financially or is responsible for late or inadequate delivery or poor quality of work on a project, then it could damage the Enlarged Group's reputation and/or cause it to suffer financial losses. Any sub-contractor employed by the Enlarged Group would be likely to be subject to the same challenging market conditions as the Enlarged Group, potentially increasing the risk of its financial failure compared with the risk during more favourable conditions.

The Enlarged Group may hire a contractor that subsequently becomes insolvent, causing cost overruns, programme delays and increasing the risk that the Enlarged Group will be unable to recover costs in relation to any defective work performed by such contractor, to the extent such costs are not covered by insurance. The insolvency or other financial distress of one or more sub-contractors could have a material adverse impact on the Enlarged Group's business, financial condition and operating results.

Kier and May Gurney and, following the Acquisition, the Enlarged Group will assess the financial strength of such sub-contractors. Where Kier and May Gurney and, following the Acquisition, the Enlarged Group are particularly dependent upon the continued financial strength of key service providers, wherever practicable, they take, or will take, steps to diversify and mitigate the risk by contracting with a range of sub-contractors.

10 *Change of Government policy*

Certain of the Kier Group's and May Gurney Group's operations are dependent on UK Government policy with regard to improving public infrastructure and buildings and services. The order books for the Kier Group's construction and services divisions are, to a certain extent, dependent upon the level of expenditure in the public sector. The UK Government and/or local government bodies may decide in future to change their priorities and programmes, including reducing present or future investment in public funded infrastructure projects or other areas in which each of the Kier Group and the May Gurney Groups and, following the Acquisition, the Enlarged Group would expect to compete for work. Any reduction in such Government investment and funding may adversely affect Kier's, May Gurney's and, following the Acquisition, the Enlarged Group's future revenues and profitability in the relevant sectors.

11 *Interruption or failure of IT systems*

The efficient operation and management of the Kier Group's and the May Gurney Group's business depends, and, following the Acquisition, the Enlarged Group's business will depend, in part on the proper operation, performance and development of their IT systems and processes. New IT systems and changes to management systems may not be successfully implemented and managed and, following the Acquisition, Kier's and May Gurney's existing IT systems may not be successfully integrated. Either of these factors may lead to an IT environment that is inadequate to support the needs and objectives of the Enlarged Group's business. A significant performance failure of the Kier Group's, the May Gurney Group's or, following the Acquisition, the Enlarged Group's IT systems could lead to loss of control over critical business information and/or systems (such as contract costs, invoicing, payroll management and/or internal porting), resulting in an adverse impact on the ability of the business affected to operate effectively or to fulfil its contractual obligations which may, in turn, lead to a loss of custom, revenue and profitability and the incurring of significant consequential and remedial costs.

12 *Failure to attract, develop and retain appropriately skilled management or personnel*

The success of both the Kier Group and the May Gurney Group is dependent on recruiting, retaining, motivating and developing sufficient appropriately skilled and competent people at all levels of their organisations. The Kier Group and the May Gurney Group face intense competition for personnel from other companies and organisations. There may at any time be shortages in the availability of appropriately skilled people at all levels within the Kier Group, the May Gurney Group or, following the Acquisition, the Enlarged Group, and these shortages may have a negative effect on their businesses. Each Group's success depends, to a significant extent, on the continued services of its senior management team, which has substantial knowledge of, and experience and expertise in, the industry. The members of the senior management team contribute to each Group's ability to obtain, generate, manage and develop opportunities. If the Kier Group, May Gurney Group or, following the Acquisition, the Enlarged Group are unable successfully to attract and retain such personnel, they may not be able to maintain standards of service or continue to grow their businesses as anticipated. The loss of such personnel, or the inability to attract and retain additional appropriately skilled employees required for their activities, could have an adverse effect on the Kier Group's, the May Gurney Group's and, following the Acquisition, the Enlarged Group's business and prospects. There is no guarantee that any of the senior management team will remain employed by the Kier Group, the May Gurney Group or, following the Acquisition, the Enlarged Group. Succession planning is key at all levels of the Kier Group, the May Gurney Group or, following the Acquisition, the Enlarged Group. The loss of the services of key members of the senior management team and the failure to maintain a robust management reporting process may lead to a lack of, or inadequate, information being provided to decision-makers in the Kier Group, the May Gurney Group or, following the Acquisition, the Enlarged Group's businesses which could have an adverse effect on the future prospects, financial condition or results of operations of such Groups.

13 *Employee relations*

The Kier Group employs, and, following the Acquisition, the Enlarged Group will employ, a large workforce across several geographic locations. Some of Kier's and, following the Acquisition, the Enlarged Group's employees may be represented by trade unions. From time to time, there may be disputes with employees, trade unions or other employee bodies to which such employees are affiliated. Kier and, following the Acquisition, the Enlarged Group will seek to manage and resolve any such disputes appropriately. However, there can be no guarantee or assurance that any such disputes would not materially and adversely affect the reputation and the future prospects, financial condition or results of operations of Kier and, following the Acquisition, the Enlarged Group.

For example, the three members of the joint venture formed between BAM Nuttall, Ferrovial and Kier Infrastructure & Overseas Limited ("BFK"), which was established to work together on the Crossrail project in London, are respondents in an employment tribunal claim brought by a former employee of a former sub-contractor of BFK. After the conclusion of the contract between BFK and the sub-contractor, the sub-contractor terminated the employment of a number of its staff, including the claimant. The individual has subsequently brought claims arising from the termination of his employment. There has been trade union

support for this claim. Each of the members of BFK is defending the claim vigorously. Although Kier Infrastructure & Overseas Limited was not the claimant's employer, an adverse finding could materially and adversely affect the reputation of the Kier Group and its relationships with third parties, including clients and prospective clients.

Such disputes could materially and adversely affect the reputation and the future prospects, financial condition or results of operations of the Kier Group and, following the Acquisition, the Enlarged Group.

14 Pension liabilities

Kier

Kier 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.

At 30 June 2012, the most recent date to which the Kier Group has published audited annual accounts, the net IAS19 deficit under the Kier Group Pension Scheme was £44.8 million (2011: £23.0 million). The assets of the Kier Group Pension Scheme are held under trust separately from those of the Kier Group; the trustees of the Kier Group Pension Scheme are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers. The defined benefit section of the Kier Group Pension Scheme was closed to new entrants on 1 January 2002; existing members continue to accrue benefits for future service.

The contributions by the Kier Group paid to the defined benefit section of the Kier Group Pension Scheme during the year ended 30 June 2012 were £20.9 million (2011: £22.8 million) which included contributions of £11.1 million (2011: £12.5 million) to reduce the ongoing past service deficit. The Kier Group expects to pay contributions in the year ending 30 June 2013 of £26.0 million including £15.5 million to reduce the ongoing past service deficit.

Work has commenced on a triennial actuarial valuation of the Kier Group Pension Scheme as at 1 April 2013. This may result in changes to the rate of contributions payable to the Kier Group Pension Scheme by the Kier Group.

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

Following closure of the defined benefit section of the Kier Group Pension Scheme to new entrants in 2002, most new employees are offered membership of the defined contribution section of the Kier Group Pension Scheme (or an alternative defined contribution arrangement). The Kier Group is required to pay contributions in respect of those employees in accordance with the rates specified in their contracts of employment.

The majority of employees in the Kier Group will become subject to statutory automatic enrolment duties on 1 July 2013. All affected employees who are not already a member of a Kier Group pension will be automatically enrolled in a defined contribution arrangement to which the Kier Group will be required to contribute in accordance with its statutory duties.

The Kier Group also participates in a defined benefit scheme through its subsidiary Kier Sheffield LLP which has participated as an admitted body in the South Yorkshire Pension Fund since 1 April 2003. As an admitted body, it was granted a fully funded past service position at that date, with assets and ongoing past service liabilities of £65.0 million. At 30 June 2012, the scheme relating to Kier Sheffield LLP showed a net surplus position of £0.9 million on the IAS19 basis (2011: net surplus £1.1 million).

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.

The contributions paid during the year ended 30 June 2012 were £2.2 million (2011: £1.3 million). Kier Sheffield LLP expects to pay contributions in the year ending 30 June 2013 for future service at the rate of 11.3 per cent. of pensionable pay.

Work has commenced on a triennial actuarial valuation of Kier Sheffield LLP's participation in the South Yorkshire Pension Scheme as at 1 April 2013. This may result in changes to the rate of contributions payable to the South Yorkshire Pension Fund by Kier Sheffield LLP. On termination of the contract with Sheffield Council, Kier Sheffield LLP will be required to make an additional contribution to the South Yorkshire Pension Fund equal to the ongoing past service deficit (if any) relating to Kier Sheffield LLP's participation.

May Gurney

May Gurney operates two defined benefit pension schemes: the May Gurney Pensions Scheme and the TransLinc Pensions Scheme. The May Gurney Pensions Scheme closed to new employees in April 2006 and to future accrual in September 2012. The TransLinc Pensions Scheme closed to future accrual in September 2008.

The most recent full triennial valuation of the May Gurney Pensions Scheme was carried out as at 31 March 2011. The May Gurney Pensions Scheme's assets were less than the May Gurney Pensions Scheme's technical provisions (liabilities) at the valuation date and a recovery plan was agreed which was expected to remove the shortfall by 31 March 2018, if assumptions were borne out in practice. As at 31 March 2012, the May Gurney Pensions Scheme had a deficit of £0.4 million on an IAS 19 basis.

The most recent full triennial valuation of the TransLinc Pensions Scheme was carried out as at 28 February 2011. The TransLinc Pensions Scheme's assets were greater than the TransLinc Pensions Scheme's technical provisions (liabilities) at the valuation date, and therefore a recovery plan was not required. As at 31 March 2012, the TransLinc Pensions Scheme was fully funded on an IAS 19 basis.

The Pensions Regulator has powers, the exercise of which could require Kier, May Gurney or the Enlarged Group to make additional contributions or put in place other financial support for the arrangements described above. Increases to Kier's, May Gurney's or the Enlarged Group's contributions or other forms of financial support could have a material adverse impact on Kier's, May Gurney's or the Enlarged Group's operating results, business prospects and financial condition.

The nature of the pension schemes described above means that Kier and May Gurney are, and, following completion of the Acquisition, the Enlarged Group will be, exposed to volatile cash, balance sheet and profit and loss impacts. Although the Enlarged Group expects to be able to meet its obligations under the pension schemes, the funding level of the schemes for both cash and accounting purposes is sensitive to changes in a wide range of actual or assumed factors, which are beyond Kier's, May Gurney's or the Enlarged Group's control, including primarily investment returns, discount rates for valuing liabilities (driven by returns on bonds), life expectancy, inflation and salary growth. As a result it is not possible to predict accurately the future funding level or employer cash contribution obligations (which are, to a degree, subject to the relevant pension scheme trustees' discretion in respect of any request for further funding) and accounting charges with any degree of certainty. Assets and investments held by Kier's and May Gurney's defined benefit pension schemes may not grow to anticipated levels in the expected time periods. In the case of losses in respect of pension scheme investments, Kier, May Gurney and, following completion of the Acquisition, the Enlarged Group may be required to make additional amounts available to make up any prospective pension deficits.

15 *The cost, quality and location of land is fundamental to Kier's housing business*

The Kier Group's housing business relies upon acquiring land at appropriate prices and in appropriate locations. There is a risk that the value of land purchased by the Kier Group may decline in value and/or that the market's perception of the location of land may change. In addition, values are inherently subjective; factors such as changes in regulatory requirements and applicable laws (including in relation to building regulations, taxation and planning), political conditions, the condition of financial markets, the financial condition of customers, potentially adverse tax consequences and interest and inflation rate fluctuations all mean that land valuations are subject to uncertainty.

The Kier Group and, following the Acquisition, the Enlarged Group will continue to manage the risks associated with its land risk. Site evaluation is a key process and site appraisals are carried out in detail. Land acquisitions are subject to internal approvals. However, there can be no assurance that the valuations of land and housing stock will reflect actual sale prices. There is a risk that unforeseen events will have an impact on the value of Kier's current landbank and that a decline in land value will materially and adversely affect Kier and, following the Acquisition, the Enlarged Group's business, financial condition and operating results.

Risks relating to the Acquisition and the New Kier Shares

1 *Acquisition synergy benefits may fail to materialise or be materially lower than have been estimated*

Kier believes the combination of the businesses of Kier and May Gurney will achieve significant operational cost savings for the Enlarged Group. However, there is a risk that the projected synergy benefits will fail to materialise, or that they may be materially lower than have been estimated, which would have a significant impact on the profitability of the Enlarged Group in the future.

2 *Even if a material adverse change to May Gurney's business or prospects were to occur, in certain circumstances, Kier may not be able to invoke the Conditions and terminate the Acquisition, which could reduce the value of Kier Shares*

Completion of the Acquisition is subject to a number of conditions, including that there is no material adverse change affecting May Gurney before the Scheme is sanctioned by the Court. Under the City Code, and except for certain antitrust clearance and Scheme-related conditions, Kier may invoke a condition to the Acquisition to cause the Acquisition not to proceed only if the Panel is satisfied that the circumstances giving rise to that Condition not being satisfied are of material significance to Kier in the context of the Acquisition.

If a material adverse change affecting May Gurney were to occur prior to completion of the Acquisition and the Panel did not allow Kier to invoke a condition to cause the Acquisition not to proceed, the market price of Kier Shares or the Enlarged Group's results of operations, financial condition and/or prospects may be materially adversely affected.

3 *Kier Shareholders and prospective Kier Shareholders should be aware that the value of an investment in Kier Shares may go down as well as up and any fluctuations may be material and may not reflect the underlying asset value*

The market price of the Kier Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Kier Shares. The fluctuations could result from national and global economic and financial conditions, the market's response to the Acquisition, market perceptions of Kier, including when it might recommence payment of dividends on the Kier Shares and various other factors and events, including but not limited to regulatory changes affecting the Enlarged Group's operations, variations in the Enlarged Group's operating results, business developments of the Enlarged Group and/or its competitors and the liquidity of the financial markets. Furthermore, the Kier Group's, or, following the Acquisition, the Enlarged Group's, operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Kier Shares.

4 *Any future issue of shares will further dilute the holdings of shareholders of the Enlarged Group and could adversely affect the market price of Kier Shares*

Other than pursuant to the Acquisition, Kier has no current plans for an offering of shares apart from possible offerings in relation to the Kier Share Schemes or scrip dividend schemes. However, it is possible that Kier or, after the Acquisition, the Enlarged Group may decide to offer additional shares in the future either to raise capital or for other purposes. If shareholders of the Enlarged Group did not take up such offer of shares or were not eligible to participate in such offering, their proportionate ownership and voting interests in the Enlarged Group would be reduced and the percentage that their Kier Shares would represent of the total share capital of the Enlarged Group would be reduced accordingly. An additional offering, or significant sales of shares by major shareholders, could have a material adverse effect on the market price of Kier Shares as a whole.

5 *Integration of the May Gurney Group into the Enlarged Group may be more time-consuming and costly than expected and unforeseen difficulties may arise*

The integration process following the completion of the Acquisition may be complex. Successful integration will require a significant amount of management time and thus may affect or impair the ability of the management team of the Enlarged Group to run the business effectively during the period of implementation. If the integration process proves more difficult than is being anticipated, there is also a risk to the operations of the Enlarged Group. This integration may take longer than is expected, or difficulties relating to the integration, of which the Kier Directors are not yet aware, may arise, including if any significant May Gurney contracts are terminated owing to the change of control of May Gurney. In addition, there can be no assurance that the actual cost of the expected savings programme will not exceed the cost estimated by Kier. Furthermore, Kier may not be able to retain personnel with the appropriate skill set for the tasks associated with the implementation programme. This could adversely affect implementation of Kier's plans. In such circumstances, the profitability of the Enlarged Group could be adversely affected, which could have a negative impact on the price of Kier Shares.

6 *Kier Shareholders and May Gurney Shareholders will own a smaller percentage of the Enlarged Group than they currently own of Kier and May Gurney, respectively*

After the completion of the Acquisition, Kier Shareholders and May Gurney Shareholders will own a smaller percentage of the Enlarged Group than they currently own of Kier and May Gurney, respectively. Based on the number of May Gurney Shares in issue as at the close of business on 13 May 2013 and assuming there are no other issues of May Gurney Shares or Kier Shares (including under the May Gurney Share Schemes and the Kier Share Schemes) between 13 May 2013 and the Effective Date, current Kier Shareholders and former May Gurney Shareholders will own approximately 27 per cent. and approximately 73 per cent., respectively, of the issued shares of the Enlarged Group. As a consequence, voting power which can be exercised and the influence which may be exerted by shareholders in respect of the Enlarged Group will be reduced.

7 *The ability of Overseas Shareholders to bring actions, or to enforce judgments, against Kier, the Enlarged Group or the directors or officers of either may be limited*

The ability of an Overseas Shareholder to bring an action against Kier may be limited under law. Kier is a public limited company incorporated in England and Wales. The rights of holders of Kier Shares are governed by English law and the Kier Articles. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations. An Overseas Shareholder may not be able to enforce a judgment against some or all of the Enlarged Group Board Members and executive officers. The majority of the Enlarged Group Board Members and executive officers are residents of the UK and none are citizens or residents of the United States. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Enlarged Group Board Members and the Enlarged Group's executive officers within the Overseas Shareholder's country of residence or to enforce against the Enlarged Group Board Members and the Enlarged Group's executive officers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Enlarged Group Board Members or the Enlarged Group's executive officers who are residents of the UK or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Enlarged Group Board Members or the Enlarged Group's executive officers in any original action based solely on foreign securities laws brought against the Enlarged Group or the Enlarged Group Board Members or the Enlarged Group's executive officers in a court of competent jurisdiction in England or other countries. Please refer to the section headed "Enforceability of judgments" on page 2 of this document for further information.

8 *Overseas Shareholders may be subject to exchange rate risks*

The Kier Shares are priced in Pounds sterling, and will be quoted and traded in Pounds sterling. In addition, any dividends Kier may pay will be declared and paid in Pounds sterling. Accordingly, holders of Kier

Shares resident outside the UK are subject to risks arising from adverse movements in the value of their local currencies against the Pounds sterling, which may reduce the value of the New Kier Shares, as well as that of any dividends paid by Kier.

9 *Admission of the New Kier Shares may not occur when expected*

Application for Admission of the New Kier Shares will be made close to the Effective Date. If the Effective Date is delayed, the application for Admission will be delayed. Admission is subject to the approval (subject to the satisfaction of any conditions to which such approval is expressed to be subject) of the UK Listing Authority and Admission will become effective as soon as a dealing notice has been issued by the UK Listing Authority and the London Stock Exchange has acknowledged that the New Kier Shares will be admitted to trading. There can be no guarantee that any conditions to which Admission is subject will be met or that the UK Listing Authority will issue a dealing notice. See the “Expected Timetable of Principal Events and Acquisition Statistics” on page 30 of this document for further information on the expected dates of these events.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document, including those in the Parts headed “Summary”, “Risk Factors”, “Letter from Chairman of Kier”, “Information on Kier”, “Information on May Gurney”, “Operating and Financial Review of Kier” and “Operating and Financial Review of May Gurney”, constitute “forward-looking statements”. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “prepares”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology.

Investors should specifically consider the factors identified in this document, which could cause actual results to differ, before making an investment decision. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Kier, May Gurney and/or the Enlarged Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Kier’s, May Gurney’s and/or the Enlarged Group’s present and future business strategies and the environment in which Kier, May Gurney and/or the Enlarged Group will operate in the future. Such risks, uncertainties and other factors are set out more fully in the section of this document headed “Risk Factors” and include, among others: risks relating to “Operating in a challenging economic environment”; “Competition”; “The regulatory environment in which Kier and May Gurney operate and, following the Acquisition, the Enlarged Group would operate may change”; “Kier and May Gurney and, following the Acquisition, the Enlarged Group will be required to comply with stringent health, safety and environment laws”; “Impact of a major safety incident”; “Contract risk”; “Provision of construction services is a complex activity which can involve disputes with third parties and there is no guarantee that a substantial third party claim will be covered by insurance”; “Procurement delay or failure”; “Dependence on the continued viability of contractors, sub-contractors and other service providers”; “Change of Government policy”; “Interruption or failure of IT systems”; “Failure to attract, develop and retain appropriately skilled management or personnel”; “Employee relations”; “Pension liabilities”; “The cost, quality and location of land is fundamental to Kier’s housing business”; and “Risks relating to the Acquisition and the New Kier Shares”. These forward-looking statements speak only as at the date of this document. Except as required by the FCA, the London Stock Exchange or applicable law (including as may be required by the Listing Rules and the Disclosure and Transparency Rules), Kier expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND ACQUISITION STATISTICS

The dates and times given in the table below in connection with the Acquisition are indicative only and are based on Kier's current expectations and may be subject to change (including as a result of changes to Court times, the regulatory timetable and/or the process for implementation of the Acquisition).

If any of the times and/or dates below change, the revised times and/or dates will be notified by Kier to Kier Shareholders by announcement through a Regulatory Information Service.

All references in this document to times and dates are to London times and dates unless otherwise stated. In this document, where the context requires, references to "13 May 2013" should be treated as being references to the latest practicable date prior to the publication of this document (unless otherwise stated).

Last time and date for receipt of Forms of Proxy for the	
Kier General Meeting.....	By 10.00 a.m. on 12 June 2013
May Gurney Court Meeting.....	10.00 a.m. on 13 June 2013
May Gurney General Meeting.....	10.15 a.m. on 13 June 2013 ⁽¹⁾
Kier General Meeting.....	10.00 a.m. on 14 June 2013
Scheme Court Hearing (to sanction the Scheme).....	3 July 2013
Last day of dealings in, and for registration of transfers and disablement in CREST of, May Gurney Shares.....	3 July 2013 ⁽²⁾
Suspension of trading on AIM of May Gurney Shares.....	5.00 p.m. on 3 July 2013 ⁽²⁾
Scheme Record Time/Record Time for May Gurney Second Interim Dividend.....	4 July 2013 ⁽²⁾
Reduction Court Hearing (to sanction the Capital Reduction) and Court order filed with the Registrar of Companies.....	5 July 2013 ⁽²⁾
Effective Date	5 July 2013 ⁽²⁾
Issue of the New Kier Shares and crediting of the New Kier Shares in uncertificated form to CREST accounts.....	8 July 2013 ⁽²⁾
Admission and commencement of dealing on the London Stock Exchange of the New Kier Shares (and cancellation of admission to trading on AIM of May Gurney Shares).....	By 8.00 a.m. on 8 July 2013 ⁽²⁾
Latest date for despatch of cheques and share certificates for the New Kier Shares or settlement through CREST in respect of the cash consideration payable to Scheme Shareholders.....	22 July 2013 ⁽²⁾
Long stop date, being the date by which the Scheme must be implemented.....	24 October 2013 ⁽⁴⁾

Note:

- (1) To commence at the fixed time or, if later, immediately after the conclusion or adjournment of the May Gurney Court Meeting.
- (2) These times and dates are indicative only and will depend, amongst other things, on the dates upon which: (i) the Conditions are satisfied or (if capable of waiver) waived; (ii) the Court sanctions the Scheme and confirms the Reduction of Capital; and (iii) a copy of the Court Order has been delivered to the Registrar of Companies and, if the Court so orders, the Court Order and the Statement of Capital have been registered by the Registrar of Companies.
- (3) The latest date for despatch of cheques or settlement through CREST of the cash consideration payable to Scheme Shareholders and despatch of share certificates in respect of New Kier Shares will be 14 days after the Effective Date.
- (4) This is the latest date by which the Scheme may become Effective unless Kier and May Gurney agree, and (if required) the Court and the Panel permit, a later date.

ACQUISITION STATISTICS

Number of Existing Kier Shares (as at 13 May 2013)	39,810,675
Number of New Kier Shares to be issued pursuant to the Acquisition	14,714,445
Number of Kier Shares in issue upon the Scheme becoming Effective ⁽¹⁾	54,525,120
New Kier Shares as a percentage of the enlarged issued share capital of Kier ⁽¹⁾	27 per cent.

Note:

- (1) Based on the number of May Gurney Shares and Kier Shares in issue as at the close of business on 13 May 2013 and assuming that (i) 14,714,445 New Kier Shares are issued pursuant to the Acquisition; and (ii) no May Gurney Shares or other Kier Shares are issued between 13 May 2013 and the Effective Date.

INFORMATION INCORPORATED BY REFERENCE

The following documents, which have been approved by, filed with or notified to the FCA, and which are available for inspection in accordance with paragraph 17 of Part XI of this document, contain information about Kier and the Kier Group which is relevant to this document:

- Kier's 2013 Interim Results, containing Kier's unaudited consolidated interim financial statements for the six months ended 31 December 2012;
- Kier's 2012 Annual Report and Accounts, containing Kier's audited consolidated financial statements in respect of the financial year ended 30 June 2012, together with the audit report in respect of that period and a discussion of Kier's financial performance;
- Kier's 2011 Annual Report and Accounts, containing Kier's audited consolidated financial statement in respect of the financial year ended 30 June 2011, together with the audit report in respect of that period and a discussion of Kier's financial performance; and
- Kier's 2010 Annual Report and Accounts, containing Kier's audited consolidated financial statement in respect of the financial year ended 30 June 2010, together with the audit report in respect of that period and a discussion of Kier's financial performance.

The table below sets out the sections of these documents which are incorporated by reference in, and form part of, this document, and only the parts of the documents identified in the table below are incorporated by reference in, and form part of, this document. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this document. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this document.

<i>Reference document</i>	<i>Information incorporated by reference in this document</i>	<i>Page number(s) in reference document</i>
For the six months ended 31 December 2012		
Kier's 2013 Interim Results	Chief Executive's Review	6-9
Kier's 2013 Interim Results	Operational Review	9-10
Kier's 2013 Interim Results	Consolidated Income Statement	10
Kier's 2013 Interim Results	Consolidated Statement of Comprehensive Income and Expense	11
Kier's 2013 Interim Results	Consolidated Statement of Changes in Equity	11
Kier's 2013 Interim Results	Consolidated Balance Sheet	12
Kier's 2013 Interim Results	Consolidated Cash Flow Statement	13

<i>Reference document</i>	<i>Information incorporated by reference in this document</i>	<i>Page number(s) in reference document</i>
For the year ended 30 June 2012		
Kier's 2012 Annual Report and Accounts	Overview	1-5
Kier's 2012 Annual Report and Accounts	Chairman's Statement	6
Kier's 2012 Annual Report and Accounts	Chief Executive's Review	8-15
Kier's 2012 Annual Report and Accounts	Divisional Performance	25-38
Kier's 2012 Annual Report and Accounts	Corporate Responsibility	39-44
Kier's 2012 Annual Report and Accounts	Financial Review	45-50
Kier's 2012 Annual Report and Accounts	Business Risks	51-53
Kier's 2012 Annual Report and Accounts	Independent Auditor's Report	73
Kier's 2012 Annual Report and Accounts	Consolidated Income Statement	74
Kier's 2012 Annual Report and Accounts	Consolidated Statement of Changes in Equity	75
Kier's 2012 Annual Report and Accounts	Consolidated Balance Sheet	76
Kier's 2012 Annual Report and Accounts	Consolidated Cash Flow Statement	77
Kier's 2012 Annual Report and Accounts	Notes to the consolidated financial statements	78-110
Kier's 2012 Annual Report and Accounts	Financial Record as at 30 June 2012	116
For the year ended 30 June 2011		
Kier's 2011 Annual Report and Accounts	Overview	1-3
Kier's 2011 Annual Report and Accounts	Chairman's Statement	4-5
Kier's 2011 Annual Report and Accounts	Chief Executive's Review	6-29
Kier's 2011 Annual Report and Accounts	Divisional Performance	12-29
Kier's 2011 Annual Report and Accounts	Corporate Responsibility	30-33
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Kier's 2011 Annual Report and Accounts	Business Risks	39-41
Kier's 2011 Annual Report and Accounts	Independent Auditor's Report	61
Kier's 2011 Annual Report and Accounts	Consolidated Income Statement	62
Kier's 2011 Annual Report and Accounts	Consolidated Statement of Changes in Equity	63
Kier's 2011 Annual Report and Accounts	Consolidated Balance Sheet	64
Kier's 2011 Annual Report and Accounts	Consolidated Cash Flow Statement	65
Kier's 2011 Annual Report and Accounts	Notes to the consolidated financial statements	66-98
Kier's 2011 Annual Report and Accounts	Financial Record as at 30 June 2011	104

<i>Reference document</i>	<i>Information incorporated by reference in this document</i>	<i>Page number(s) in reference document</i>
For the year ended 30 June 2010		
Kier's 2010 Annual Report and Accounts	Chief Executive's Review	6-34
Kier's 2010 Annual Report and Accounts	Divisional Performance	16-34
Kier's 2010 Annual Report and Accounts	Financial Review	42-44
Kier's 2010 Annual Report and Accounts	Business Risks	39-41
Kier's 2010 Annual Report and Accounts	Independent Auditor's Report	63
Kier's 2010 Annual Report and Accounts	Consolidated Income Statement	64
Kier's 2010 Annual Report and Accounts	Consolidated Statement of Changes in Equity	65
Kier's 2010 Annual Report and Accounts	Consolidated Balance Sheet	66
Kier's 2010 Annual Report and Accounts	Consolidated Cash Flow Statement	67
Kier's 2010 Annual Report and Accounts	Notes to the consolidated financial statements	68-98
Kier's 2010 Annual Report and Accounts	Financial Record as at 30 June 2010	104

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

DIRECTORS

Phil White *Chairman*
Paul Sheffield *Chief Executive*
Haydn Mursell *Finance Director*
Steve Bowcott *Executive Director*
Ian Lawson *Executive Director*
Chris Geoghegan *Senior Non-Executive Director*
Richard Bailey *Non-Executive Director*
Amanda Mellor *Non-Executive Director*
Nick Winsor *Non-Executive Director*

*The business address of each of the Kier Directors is the Company's registered address at
Tempsford Hall, Sandy, Bedfordshire SG19 2BD.*

COMPANY SECRETARY

Hugh Raven

REGISTERED OFFICE

Tempsford Hall
Sandy
Bedfordshire SG19 2BD

JOINT SPONSORS, FINANCIAL ADVISERS AND JOINT BROKERS

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25 Bank Street
London E14 5JP

Numis
10 Paternoster Square
London EC4M 7LT

LEGAL ADVISER TO THE COMPANY

Linklaters LLP
One Silk Street
London EC2Y 8HQ

LEGAL ADVISER TO THE JOINT SPONSORS, FINANCIAL ADVISERS AND JOINT BROKERS

Simmons & Simmons LLP
CityPoint
One Ropemaker Street
London EC2Y 9SS

AUDITORS AND REPORTING

ACCOUNTANTS

KPMG Audit Plc
15 Canada Square
London E14 5GL

REGISTRARS

Capita Registrars
34 Beckenham Road
Beckenham
Kent BR3 4TU

PART I

LETTER FROM CHAIRMAN OF KIER



Registered Office
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Kier Directors

Phil White	<i>Chairman</i>
Paul Sheffield	<i>Chief Executive</i>
Haydn Mursell	<i>Finance Director</i>
Steve Bowcott	<i>Executive Director</i>
Ian Lawson	<i>Executive Director</i>
Chris Geoghegan	<i>Senior Non-Executive Director</i>
Richard Bailey	<i>Non-Executive Director</i>
Amanda Mellor	<i>Non-Executive Director</i>
Nick Winser	<i>Non-Executive Director</i>

To the holders of Kier Shares

14 May 2013

Dear Shareholder,

RECOMMENDED OFFER FOR MAY GURNEY BY KIER

1 Introduction

On 24 April 2013, the Boards of Kier and May Gurney announced that they had reached agreement on the terms of a recommended offer for May Gurney by Kier, which is to be implemented by way of a scheme of arrangement of May Gurney under Part 26 of the Companies Act, pursuant to which Kier will acquire the entire issued and to be issued ordinary share capital of May Gurney (the "Acquisition"). The Acquisition is conditional on, amongst other things, Kier Shareholder approval. Accordingly, the Kier General Meeting has been convened for 10.00 a.m. on 14 June 2013 at the offices of Linklaters LLP at One Silk Street, London EC2Y 8HQ. Kier Shareholders will also be asked to approve the allotment of New Kier Shares in connection with the Acquisition. An explanation of the Resolutions to be proposed at the meeting is set out in paragraph 22 of this Part I.

I am writing to give you further details of the Acquisition, including the background to and reasons for it, to explain why the Kier Board considers it to be in the best interests of Kier and Kier Shareholders as a whole and to seek your approval of the Resolutions.

2 The Acquisition

Under the terms of the Acquisition May Gurney Shareholders will be entitled to receive:

**for each Scheme Share: 0.2095 New Kier Shares; and
50 pence in cash.**

The consideration under the terms of the Acquisition represents a value of:

- 315 pence per May Gurney Share, based on the Closing Price of 1,265 pence per Kier Share on 23 April 2013 (being the last Business Day prior to the date of the Acquisition Announcement), representing a premium of approximately 71 per cent. to the Closing Price of 184 pence per May Gurney Share on 25 March 2013 (being the latest practicable date prior to the announcement by Costain Group plc of its proposed merger with May Gurney); and
- 301 pence per May Gurney Share, based on the Closing Price per Kier Share of 1,199 pence on 13 May 2013 (being the latest practicable date prior to the date of this document), representing a premium of approximately 0 per cent. to the Closing Price per May Gurney Share on 13 May 2013.

The Acquisition values each May Gurney Share at 301 pence, and May Gurney's existing issued share capital at approximately £212 million, based on the Closing Price of a Kier Share on 13 May 2013 (being the last practicable date prior to the publication of this document). Based on this Acquisition value: (a) the cash consideration for the Acquisition will be approximately £35.1 million; and (b) up to 14,714,445 New Kier Shares will be issued as part consideration for the Acquisition, irrespective of elections made under the Mix and Match Facility.

May Gurney Shareholders will also be entitled to receive the May Gurney Second Interim Dividend. The May Gurney Second Interim Dividend, which will be conditional upon completion of the Acquisition, will be payable after the Effective Date to May Gurney Shareholders on the register of members at the Scheme Record Time. In the event that the Acquisition completes, no final dividend will be paid in respect of May Gurney's financial year ended 31 March 2013.

May Gurney Shareholders may elect to vary the proportions of New Kier Shares and cash consideration they receive in respect of their holdings of May Gurney Shares, via a Mix and Match Facility. For example, a May Gurney Shareholder who elects to receive all cash as consideration will only receive such all cash consideration to the extent other May Gurney Shareholders elect to receive consideration in New Kier Shares only. A May Gurney Shareholder may complete an election to receive a mix of cash and New Kier Shares. However, such election is subject to equal and opposite elections by other May Gurney Shareholders. Irrespective of elections under the Mix and Match Facility, the cash consideration payable by Kier for the Acquisition will always be approximately £35.1 million and the holdings of current Kier Shareholders will be diluted to the extent that they hold 73 per cent. of the issued share capital of Kier after the issue and allotment of the New Kier Shares.

If a May Gurney Shareholder elects to receive all New Kier Shares instead of cash, or elects to receive all cash instead of New Kier Shares, under the Mix and Match Facility, that May Gurney Shareholder will receive, assuming opposite and equal elections are made by other May Gurney Shareholders:

- for a cash election in respect of a May Gurney Share: 301.2 pence in cash; and
- for a share election in respect of a May Gurney Share: 0.2512 of a New Kier Share.

The amounts outlined above are equivalent to a May Gurney Shareholder receiving 0.2095 of a New Kier Share and 50 pence in cash, based on the Closing Price of 1,199 pence per Kier Share on 13 May 2013.

For further details of the Mix and Match Facility, please refer to paragraph 10 of Part I of this document.

If the Scheme becomes Effective, it will result in the allotment and issue of approximately 14.7 million New Kier Shares to May Gurney Shareholders, which will result in former May Gurney Shareholders holding approximately 27 per cent. of the Enlarged Group and Kier's issued share capital increasing by approximately 37 per cent. If the Scheme becomes Effective and New Kier Shares are issued to May Gurney Shareholders, the holdings of current Kier Shareholders will be diluted to the extent that they will hold approximately 73 per cent. of the issued share capital of Kier.

Following completion of the Acquisition, the Kier Shares will continue to be admitted to the premium listing segment of the Official List and to be traded on the London Stock Exchange's main market for listed securities. Kier will also remain a member of the FTSE 250 index.

3 Background to, and reasons for, the Acquisition

Kier has a publicly stated strategic objective of increasing the relative scale of its services division. Kier holds May Gurney in high regard and the Acquisition represents an excellent opportunity to accelerate Kier's strategy for its services division. The Kier Board believes the Acquisition is highly complementary and will provide an increased breadth of services, skills, geographic coverage and operating efficiencies, representing an attractive proposition for its clients (and those of the Enlarged Group) and enhanced value for the shareholder base of the Enlarged Group.

The Kier Board believes that the Enlarged Group will:

- have a well-balanced services offering, providing an extensive range of services to local authorities, as well as a comprehensive portfolio of services to the regulated sector;
- be able to provide these services across the UK, leveraging the delivery teams of the Enlarged Group and its combined network of office locations;
- have the ability to access opportunities which are otherwise not currently available to Kier or May Gurney;
- create a broader group which would be well-placed to compete for large contracts, harnessing the significant skills and talent of its employees;
- combine two businesses with a similar culture and approach to risk management, which will aid the integration process and enhance its underlying business performance; and
- have significant earnings visibility, underpinned by long-term contracts and a combined order book of approximately £5.7 billion.

4 Synergies and integration

The Kier Board believes that the Acquisition presents opportunities for significant cost synergies. The Kier Directors believe that the Enlarged Group can be expected to achieve recurring annual pre-tax cost synergies of approximately £20 million.

The synergies identified below reflect both beneficial elements and relevant costs that arise as a result of the Acquisition. These synergies are contingent on the Acquisition and could not be achieved by Kier and May Gurney operating independently. A central objective of the integration will, however, be the retention of the customer focus and capabilities of both Kier and May Gurney.

The Kier Board has identified the following potential recurring cost synergies:

- the highly complementary businesses and increased size of the Enlarged Group will drive material procurement savings estimated to be £4.1 million per year;
- the reduction of the costs associated with May Gurney operating as a publicly quoted company (including administrative and governance costs and professional and finance fees) is expected to save an estimated £2.5 million per year;
- combining corporate support functions and combining the management structure of the operating divisions of Kier and May Gurney is estimated to drive savings of £7.9 million per year; and
- the estimated savings from operational overlap are £5.5 million.

The Kier Board expects to realise the synergies on a phased basis as follows:

- approximately £5 million of pre-tax cost synergies will be realised in the financial year ending 30 June 2014;
- approximately £15 million of pre-tax cost synergies will be realised in the financial year ending 30 June 2015; and

- approximately £20 million of pre-tax cost synergies will be realised in the financial year ending 30 June 2016.

It is expected that there will be a net reduction in the number of Enlarged Group full-time equivalent employees of approximately 200. The number of employees, specific operating functions and locations affected by the integration will depend on the outcome of the integration planning and these changes are likely only to come into effect as synergies are realised.

The Kier Board also expects that the integration process and the realisation of these synergies will result in one-off exceptional costs of approximately £20 million, together with one-off capital expenditure costs of approximately £8 million, principally relating to investment in IT systems.

The Kier Board is confident that the integration of the two businesses can be achieved without undue disruption to the underlying operations of each business. As at the date of this document, an outline integration plan has been developed. A more detailed plan will set out the scope of the integration process, quantified objectives and the proposed organisational structure of the Enlarged Services Division.

As soon as practicable following the Effective Date, the Enlarged Group will aim to have fully validated the initial synergy assumptions, agreed the target operating model of the Enlarged Services Division, produced a detailed integration plan across the Enlarged Services Division and completed the principal elements of the restructuring of the Enlarged Services Division, which will include senior management appointments, reporting structures and operational and executive authority limits.

5 Management, employees and locations of business

Phil White will be the Chairman of the Enlarged Group.

The Enlarged Group will be led by Kier's experienced Chief Executive, Paul Sheffield, and Finance Director, Haydn Mursell. The management team of the Enlarged Services Division will ensure that the Enlarged Group benefits from the best skills and experience of both Kier and May Gurney to deliver best practice and operational excellence across the Enlarged Services Division and the Enlarged Group more generally.

Kier attaches great importance to the skills and experience of the existing management and employees of Kier and May Gurney and believes that the Enlarged Group would offer greater opportunities to the employees within it.

The Enlarged Group's headquarters and registered office will be located at Kier's office at Tempsford Hall, Sandy, Bedfordshire. The Kier Board also currently intends to retain May Gurney's office in Trowse, Norfolk, as a shared services centre for the Enlarged Group.

Kier has given assurances to the May Gurney Directors that, following completion of the Acquisition, the existing employment rights of May Gurney's employees will be fully safeguarded. Kier recognises the strength of the May Gurney brand and intends to retain it at an operating level.

6 Financial effects of the Acquisition

The Kier Directors have carefully reviewed the business and prospects of, and the consequent investment required in, the Enlarged Group following the Acquisition, as well as the expected synergy benefits and associated costs of achieving the same. The Acquisition meets Kier's internal acquisition criteria and, after taking into account the envisaged synergy benefits, the Acquisition is expected by the Kier Directors to be significantly value enhancing¹ for Kier for the financial year ending 30 June 2014 and to deliver a 15 per cent. ROCE by December 2015.²

¹ Before amortisation of acquired intangibles, employment-related deferred consideration and integration costs.

² These statements of expected value enhancement and targeted ROCE relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the expected value enhancement and ROCE referred to may not be achieved, or those achieved could be materially different from those targeted. The statements in this document should not be construed as a profit forecast or interpreted to mean that the Enlarged Group's earnings in the period following the Acquisition up until 30 June 2014 or December 2015 (as appropriate), or in any subsequent period, would necessarily match or be greater than or be less than those of Kier and/or May Gurney for the relevant preceding financial period or any other period.

The terms of Kier's offer for May Gurney allow for the possibility that a significant provision may be required to be taken by the Enlarged Group and, if it is, recorded as a purchase price accounting adjustment in relation to the fair value of the net assets acquired.

7 Information relating to the Kier Group

The Kier Group is a leading construction, services and property group specialising in building and civil engineering, support services, commercial property development, structured property financing and private and affordable housing and is a member of the FTSE 250 index. Kier's business is organised into three divisions:

- Kier Construction: the construction division encompasses UK regional contracting, civil engineering and overseas businesses, which are highly skilled in the construction of the full range of building projects and power, waste, nuclear and infrastructure facilities and rail and mining projects;
- Kier Services: the services division comprises three main businesses: maintenance, which provides both reactive and planned maintenance principally to local authorities and housing associations; facilities management, which provides services to public and private sector clients; and environmental, which offers domestic and commercial waste collection services, manages and operates a major recycling facility and provides street scene and grounds maintenance services; and
- Kier Property: the property division comprises three main businesses: commercial, industrial, retail and mixed-use property development; structured property financing; and house-building, including both private and affordable housing.

Current trading, trends and prospects

On 28 February 2013, Kier announced its interim results for the six months ended 31 December 2012, reporting revenue of £975.6 million (2011: £1,045.9 million), profit from operations of £23.4 million (2011: £33.7 million), profit before tax of £20.9 million (2011: £32.3 million) and adjusted basic earnings per share of 53.5 pence (2011: 70.3 pence).

On 24 April 2013, Kier released its interim management statement for the period since 31 December 2012 (which was supplemented on 25 April 2013). The full text of the statement, as supplemented, is included, without material adjustment, below:

“Kier Group plc, the integrated construction, services and property group, today announces its Interim Management Statement covering the period from 31 December 2012 to the date of this announcement.

Construction

Kier's Construction division continues to be resilient and has maintained operating margins around 2 per cent. In the period to the end of March, Kier has secured approximately £400 million of new contracts, and the order book of secured and probable work represents the entire forecast Construction revenue for the current financial year and 88 per cent. of the forecast Construction revenue for the 2014 financial year. Management of cash remains a core focus as the sector experiences ongoing challenging working capital conditions, particularly across public sector contracts.

Kier continues to secure contracts across both the private and public sectors, underpinned by its involvement on a significant number of frameworks. The Education sector continues to represent a large proportion of contract awards, and Kier has also secured more than £60 million in the health sector including three contracts for North Middlesex University Hospital NHS Trust. The residential market for Kier Living has also been strong with more than £30 million of awards including a scheme for 122 homes in Cornwall.

In the Middle East, in March, Kier signed a joint venture agreement with the AA Turki Group of Companies (ATCO) of the Kingdom of Saudi Arabia, and is excited by the infrastructure and building opportunities in the country.

Across the division Kier's focus remains on winning quality work that has high barriers to entry, such as power, waste and transport, where its technical skills provide the opportunity to create better value for its customers whilst allowing Kier to maintain its strict approach to risk management.

Services

The Services division is trading as forecast and the order book of £2.1 billion continues to provide long-term visibility of revenues, with 97 per cent. of forecast Services revenue for the year to 30 June 2013 and 86 per cent. of forecast Services revenue for the year to 30 June 2014 secured or probable. In April, Kier signed the Circle Housing Group contracts to deliver its planned repairs and maintenance services across the Central and Eastern Regions worth in excess of £200 million over a period of five years, with the potential to be extended for a further five years. Also in the period Kier secured more than £100 million of new work, including hard and soft FM for Legal & General and a housing maintenance contract for Northampton Borough Council.

Bidding levels continue to remain high, and following Kier's success in securing new work, for example the Circle and East Sussex contracts, mobilisation costs for these new major schemes will, as expected, slightly decrease the operating margins that have been seen over recent years.

Property

The Property division is progressing well with its combined £1.4 billion housing and development pipeline and is trading in line with management's expectations, with transactions forecast to close in June as anticipated.

In the next few months, Solum Regeneration, the joint venture with Network Rail, will begin to regenerate the area around Haywards Heath station having received approval from Mid Sussex District Council. This £17 million scheme will include retail and residential apartments. Evolution, a consortium between Kier and Thames Valley Housing, has been named preferred bidder and has recently been granted planning consent to develop an £80 million housing scheme by Woking Borough Council to create 371 new homes.

Across its housing activities, Kier has maintained its focus on the development of the mixed-tenure housing business which now has a pipeline of approximately £400 million, with more than £50 million of new awards, including a £27 million project to provide 197 new affordable dwellings in the Borough of Sandwell, West Bromwich. The private housing business remains on track to deliver in excess of 500 completions this year.

Outlook and current trading

Kier remains on course to meet management's expectations for the current financial year.

The Group's order books in Construction and Services remain robust, trading performance and cash position are in line with expectations and the Group is experiencing a good level of bidding activity across the Group.

Kier remains well placed to win new work, particularly in its chosen growth markets and the Group has a strong capital structure, augmented by securing the £30 million 4-year bilateral loan agreement with Lloyds in January 2013, provided under the Government's Funding for Lending Scheme.

The comprehensive review and restructuring of the business, which was highlighted in Kier's interim results in February, has made good progress to date. It promises to deliver significant reductions in costs, greater organisational efficiency and establish a strong platform for future growth."

8 Information relating to May Gurney

May Gurney is a support services company headquartered in Trowse, Norfolk. May Gurney works with its clients in the public and regulated sectors to design and deliver a wide range of essential front-line services.

The principal activities of the May Gurney Group are:

Public Sector Services:

- Highways Services: May Gurney is a leading highways maintenance services provider for local authorities, maintaining, through long-term contracts, almost 31,500 kilometres of roads and more than 330,000 street lights and illuminated road signs across the UK;
- Environmental Services: May Gurney is a top five provider of municipal waste collection services by population in England and Wales, covering more than 2 million households across more than 15 local authorities; and
- Fleet & Passenger Services: May Gurney is one of the UK's leading providers of end-to-end fleet management and passenger services to local authorities, managing over 6,000 specialist vehicles.

Regulated Sector Services:

- Utility Services: May Gurney delivers utility maintenance and asset enhancement services in water, gas, power and telecommunications across the UK;
- Rail Services: May Gurney works in a long-term partnership with its client, Network Rail, to deliver maintenance and refurbishment works on rail structures, rail property and in signalling, and it also works with Nexus, the Tyne and Wear Metro; and
- Waterways Services: May Gurney plays an important role in the regeneration, maintenance and renaissance of the UK's waterways network.

Current trading, trends and prospects

For the year ended 31 March 2012, May Gurney reported revenues of £695.3 million, operating profit of £21.0 million, profit before tax of £19.3 million and basic earnings per share of 20.52 pence. May Gurney's operating profit before amortisation and non-recurring items for the year ended 31 March 2012 was £30.1 million and underlying earnings per share was 29.47 pence. As at 30 September 2012, May Gurney had gross assets of £332.9 million.

On 4 December 2012, May Gurney announced its results for the half year ended 30 September 2012, which contained the following statement from the Chairman of May Gurney with regard to current trading, trends and prospects:

“May Gurney's first-half performance was in line with our revised expectations. We have taken steps to reinforce commercial disciplines and the plans we put in place to address the operational issues we announced in September are on track. As expected, the process to resolve the two MaGOS™ environmental services contracts is complex, and will continue well into next year.

We continue to target resilient, maintenance-focused revenue streams for essential services by developing long-term relationships with our clients and local communities. Our strong commercial market positions are reflected by the fact that we have secured more than £314 million of business in the first-half. Our forward order book has been maintained at £1.5 billion, with a further £1.7 billion in potential contract extensions, and our bidding pipeline stands at approximately £4 billion.

May Gurney is focused on delivering a solid future performance. Whilst mindful of the challenging market, we look forward to further progress in the second half and remain on course to meet our revised expectations for the full year”.

In May Gurney's 2012 interim results announced on 4 December 2012, May Gurney set out details regarding underperforming MaGOS™ contracts. Since the date of its interim results announcement, May Gurney has continued to take actions to drive operational efficiencies and profitability on those MaGOS™ contracts and has remained in close dialogue with the relevant contract counterparties with the aim of improving the financial performance of those contracts. Whilst progress has been made, the MaGOS™ contracts as a whole will incur, as expected, a significant loss for the year ended 31 March 2013 and much remains to be achieved in order to return the financial performance of the underperforming contracts to an acceptable level. The Board, in its assessment of the MaGOS™ contracts as part of the ongoing May Gurney business, does not consider that a provision for future losses on those contracts is required at this time. As previously stated by May Gurney, this is a matter that is reviewed regularly by the May Gurney Board.

On 19 February 2013, May Gurney announced that MGWSP, a partnership between May Gurney and WSP, had been selected as preferred bidder for Suffolk County Council's Highway Services contract valued at up to £200 million over five years, with the possibility of extension to ten years.

On 12 April 2013, May Gurney confirmed that it had been notified by Norfolk County Council that its formal appeal against the decision not to select it for the short list in relation to the re-bid for Norfolk County Council's highway and related services procurement contract has been rejected. May Gurney remains fully committed to continuing to deliver a quality service under the terms of its current contract with Norfolk County Council.

9 Financing of the Acquisition

On 22 April 2013, Kier entered into a £50 million term loan facility and a £70 million revolving credit facility agreement with the Royal Bank of Scotland plc, HSBC Bank plc, Lloyds Bank plc and Santander UK PLC. The £50 million term loan facility will be used to finance the Acquisition.

10 Mix and Match Facility

Under the terms of the Acquisition, May Gurney Shareholders may elect to vary the proportions of New Kier Shares and cash consideration they receive in respect of their holdings of May Gurney Shares, via a Mix and Match Facility. For example, a May Gurney Shareholder who elects to receive all cash as consideration will only receive such all cash consideration to the extent other May Gurney Shareholders elect to receive consideration in New Kier Shares only. A May Gurney Shareholder may complete an election to receive a mix of cash and New Kier Shares. However such election is subject to equal and opposite elections by other May Gurney Shareholders. Irrespective of elections under the Mix and Match Facility, the cash consideration payable by Kier for the Acquisition will always be approximately £35.1 million and the holdings of current Kier Shareholders will be diluted to the extent that they hold 73 per cent. of the issued share capital of Kier after the issue and allotment of the New Kier Shares. To the extent that elections cannot be satisfied in full, they will be scaled down on a *pro rata* basis. As a result, May Gurney Shareholders who make an election under the Mix and Match Facility will not know the exact number of New Kier Shares or amount of cash they will receive until settlement of the consideration under the Acquisition. Elections under the Mix and Match Facility will not affect the entitlements of those May Gurney Shareholders who do not make any such elections. Elections will also not result in Kier issuing, in aggregate, additional New Kier Shares over and above the number of New Kier Shares referred to in paragraph 2 of Part I of this document.

If a May Gurney Shareholder elects to receive all New Kier Shares instead of cash, or elects to receive all cash instead of New Kier Shares, under the Mix and Match Facility, that May Gurney Shareholder will receive, assuming opposite and equal elections are made by other May Gurney Shareholders:

- for a cash election in respect of a May Gurney Share: 301.2 pence in cash; and
- for a share election in respect of a May Gurney Share: 0.2512 of a New Kier Share.

The amounts outlined above are equivalent to a May Gurney Shareholder receiving 0.2095 of a New Kier Share and 50 pence in cash, based on the Closing Price of 1,199 pence per Kier Share on 13 May 2013.

Minor adjustments to the entitlements of May Gurney Shareholders pursuant to elections made under the Mix and Match Facility may be made by May Gurney's receiving agent with the prior consent of May Gurney and Kier on a basis that May Gurney and Kier consider to be fair to the extent necessary to satisfy all entitlements pursuant to Elections under the Mix and Match Facility as nearly as may be practicable. Such adjustments shall be final and binding on the May Gurney Shareholders.

11 Accounting considerations

The Enlarged Group will adopt Kier's accounting policies. The Kier financial year ends on 30 June and the May Gurney financial year ends on 31 March. It is currently intended that the Enlarged Group will have a 30 June financial year end. For accounting purposes, it is expected that May Gurney will be consolidated into Kier's balance sheet. May Gurney's assets and liabilities will be fair valued following completion of the

Acquisition resulting in the valuation of May Gurney's intangible assets being included on the Enlarged Group's balance sheet.

12 Dividends and dividend policy

Conditional upon the Scheme becoming Effective, May Gurney Shareholders will be entitled to receive the May Gurney Second Interim Dividend. The May Gurney Second Interim Dividend will be payable after the Effective Date to May Gurney Shareholders on the register of members at the Scheme Record Time. In the event that the Scheme becomes Effective, no final dividend will be paid in respect of the May Gurney financial year ended 31 March 2013.

On 28 February 2013, the Kier Board announced its intention to pay an interim dividend of 21.5 pence per Kier Share (the "Kier Interim Dividend"). The Kier Interim Dividend will be paid on 17 May 2013 to Kier Shareholders on the register of members on 8 March 2013. The New Kier Shares to be issued pursuant to the Acquisition will not carry any entitlement to the Kier Interim Dividend.

It is expected that any final dividend of the Enlarged Group for the year ending 30 June 2013 will be declared at its annual general meeting in November 2013 (and paid in November or December 2013) and that any interim dividend for the year ending 30 June 2014 will be declared in February 2014 (and paid in May 2014). Assuming that the Acquisition will be completed in July, as currently anticipated, the first dividend in relation to the Enlarged Group is expected to be declared at the time of the full year results for the full year ending 30 June 2013.

The Board of the Enlarged Group will adopt Kier's current progressive dividend policy and will decide the absolute level of any future dividends taking into account the Enlarged Group's underlying earnings, cash flows, capital investment plans and the prevailing market outlook.

It is also intended that the Enlarged Group will offer a scrip dividend scheme for both annual and interim dividends, allowing for the allotment of ordinary shares in lieu of cash dividends to those shareholders who elect to participate.

13 Structure of the Acquisition

It is intended that the Acquisition will be effected by a Court-sanctioned scheme of arrangement between May Gurney and the Scheme Shareholders under Part 26 of the Companies Act. The Scheme will result in Kier becoming the owner of the whole of the issued and to be issued ordinary share capital of May Gurney.

The Acquisition is to be achieved by the cancellation of the Scheme Shares held by Scheme Shareholders and the application of the reserve arising from such cancellation in paying up in full a number of new May Gurney Shares (which is equal to the number of Scheme Shares cancelled) and issuing the same to Kier in consideration for which Scheme Shareholders will receive consideration on the basis set out in paragraph 2 of this Part I.

The Conditions include:

- (a) a resolution to approve the Scheme being passed by a majority in number of the Scheme Shareholders who are present and vote at the Court Meeting, either in person or by proxy, representing not less than 75 per cent. in value of the Scheme Shares voted by those Scheme Shareholders;
- (b) the Special Resolution being passed by the requisite majority of May Gurney Shareholders at the May Gurney General Meeting;
- (c) the Scheme being sanctioned (with or without modification, on terms agreed by Kier and May Gurney), and the related Capital Reduction being confirmed, by the Court;
- (d) copies of each of the Court Orders (together with the Statement of Capital) being delivered to the Registrar of Companies and, if so ordered by the Court, the Reduction Court Order being registered by the Registrar of Companies together with the Statement of Capital;

- (e) the OFT indicating, in terms reasonably satisfactory to Kier, that it does not intend to refer the Acquisition (or any part of it) to the Competition Commission;
- (f) the Resolutions to be proposed at the Kier General Meeting being passed, in each case, by the requisite majority of Kier Shareholders; and
- (g) the UK Listing Authority acknowledging to Kier or its agent (and such acknowledgement not having been withdrawn) that Admission will become effective as soon as a dealing notice has been issued by the UK Listing Authority and the London Stock Exchange having acknowledged to Kier or its agent (and such acknowledgement not having been withdrawn) that the New Kier Shares will be admitted to trading on the London Stock Exchange's main market for listed securities.

Kier reserves the right to waive, in whole or in part, the Condition summarised above relating to the OFT having indicated, in terms reasonably satisfactory to Kier, that it does not intend to refer the Acquisition (or any part of it) to the Competition Commission.

To become Effective, the Scheme requires (i) the approval at the Court Meeting by a majority in number of the Scheme Shareholders present and voting (and entitled to vote), either in person or by proxy, representing not less than 75 per cent. in value of the Scheme Shares held by such Scheme Shareholders; and (ii) the passing of the Special Resolution at the May Gurney General Meeting by May Gurney Shareholders representing at least 75 per cent. of the votes cast at the May Gurney General Meeting (either in person or by proxy). The May Gurney General Meeting will be held immediately after the Court Meeting. In respect of the Special Resolution at the May Gurney General Meeting, May Gurney Shareholders will be entitled to cast one vote for each May Gurney Share held.

The Scheme will lapse if:

- the Court Meeting and the General Meeting are not held by the 22nd day after the expected date of such meetings to be set out in the Scheme Document (or such later date as may be agreed between Kier and May Gurney); or
- the Scheme does not become Effective by 24 October 2013 (or such later date, if any, as Kier and May Gurney may agree and, if required, the Court and the Panel may allow),

provided, however, that the deadlines for the timing of the Court Meeting, the General Meeting and the scheme to become Effective as set out above may be waived by Kier.

The notice convening the Kier General Meeting is located at the end of this document on page 322. The Kier General Meeting is scheduled for 14 June 2013 at which the approval of Existing Kier Shareholders will be sought.

Following the Court Meeting and the May Gurney General Meeting, the Scheme must be sanctioned by the Court at the Scheme Court Hearing and the associated Capital Reduction must be confirmed by the Court. The Scheme will only become Effective once an office copy of the Scheme Court Order, an office copy of the Reduction Court Order and the Statement of Capital are delivered to the Registrar of Companies.

Upon the Scheme becoming Effective, it will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting and the May Gurney General Meeting.

Upon the Scheme becoming Effective:

- the CREST accounts of the May Gurney Shareholders who hold May Gurney Shares in uncertificated form will be credited with the New Kier Shares and cash in consideration for their May Gurney Shares (and dependent upon elections under the terms of the Mix and Match Facility); and
- May Gurney Shareholders who hold their May Gurney Shares in certificated form will receive share certificates in respect of New Kier Shares and cash in consideration for their May Gurney Shares (and dependent upon elections under the terms of the Mix and Match Facility),

in each case no later than 14 days after the Effective Date.

The Scheme will be governed by English law. The Scheme will be subject to the applicable requirements of the City Code, the Panel, the London Stock Exchange, the AIM Rules, the UK Listing Authority and the Listing Rules, the Disclosure and Transparency Rules and the Prospectus Rules.

14 Fractional entitlements

Fractions of New Kier Shares will not be allotted or issued pursuant to the Scheme. Fractional entitlements to New Kier Shares will be aggregated and sold in the market and the net proceeds of sale distributed *pro rata* to persons entitled thereto.

However, individual entitlements to amounts of less than £5 will not be paid to persons accepting the Acquisition but will be retained for the benefit of Kier.

15 Listing, dealings and settlement of the New Kier Shares

Applications will be made to the UK Listing Authority for the New Kier Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for the New Kier Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings for normal settlement in the New Kier Shares will commence on the London Stock Exchange at or shortly after 8.00 a.m. (London time) on the Effective Date.

The Existing Kier Shares are already admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities and to CREST. It is expected that all of the New Kier Shares, when issued and fully paid, will be capable of being held and transferred by means of CREST. The New Kier Shares will trade under ISIN GB0004915632.

16 Cancellation of admission to trading of May Gurney Shares on AIM and re-registration

On the Effective Date, May Gurney will become a wholly-owned subsidiary of Kier.

Prior to the Scheme becoming Effective, a request will be made to the London Stock Exchange to cancel trading in May Gurney Shares on AIM on the first Business Day following the Effective Date.

Share certificates in respect of May Gurney Shares will cease to be valid and should be destroyed on the first Business Day following the Effective Date.

In addition, entitlements held within CREST to May Gurney Shares will be cancelled on the first Business Day following the Effective Date.

As soon as practicable after the Effective Date, it is intended that May Gurney will be re-registered as a private limited company.

17 Acquisition-related arrangements

Kier and May Gurney have entered into a mutual confidentiality agreement dated 28 March 2013 pursuant to which each of Kier and May Gurney has undertaken to keep certain information relating (i) to the Acquisition; and (ii) to the other party, confidential and not to disclose such information to third parties, except (i) to certain permitted disclosees for the purposes of evaluating the Acquisition; or (ii) if required by applicable laws or regulations. These confidentiality obligations will remain in force until completion of the Acquisition, or if the Acquisition fails to complete, three years from the date of the mutual confidentiality agreement.

In addition, Kier and May Gurney have entered into a costs reimbursement agreement dated 10 April 2013, pursuant to which Kier has undertaken to May Gurney to reimburse it in respect of third party costs and expenses (up to a maximum aggregate amount of £150,000 (exclusive of any amounts in respect of VAT)) that May Gurney incurs in connection with investigating Kier and its business and operations in connection with the Acquisition during the period from (and including) the date of Kier's announcement in relation to the possible acquisition of May Gurney by Kier dated 27 March 2013 to (and including) the date on which: (i) the Acquisition completes; or (ii) the proposed offer for May Gurney is withdrawn or lapses; or (iii) Kier announces pursuant to Rule 2.8 of the City Code that it does not intend to effect the Acquisition, whichever is the earliest.

18 Irrevocable undertakings

Irrevocable undertakings from May Gurney Shareholders

Kier has received irrevocable undertakings to vote, or procure the vote, in favour of the Acquisition at the Court Meeting and the Special Resolution from David and Wendy Sterry (acting as trustees of various trusts), Artemis Investment Management LLP, Aviva Investors Global Services Limited (in its capacity as investment manager for certain clients) and May Gurney Group Trustees Limited (acting as trustee of the May Gurney Group Limited Employee Share Ownership Trust) in respect of a total of 17,031,884 May Gurney Shares, representing, in aggregate, approximately 24.25 per cent. of May Gurney's issued share capital.

Irrevocable undertakings and letter of intent from Kier Shareholders

Phil White, Paul Sheffield, Haydn Mursell, Steve Bowcott, Ian Lawson, Chris Geoghegan and Nick Winsler, being the Kier Directors who hold interests in Kier Shares, have irrevocably undertaken to vote in favour of the resolutions to be proposed at the Kier General Meeting to approve the Acquisition and related matters in respect of a total of 140,383 Kier Shares, representing, in aggregate, approximately 0.35 per cent. of Kier's issued share capital.

In addition, Kier has received a letter of intent from Schroder Investment Management Limited confirming its intention to vote, or to procure the vote, in favour of the resolutions to be proposed at the Kier General Meeting to approve the Acquisition and related matters in respect of a total of 2,453,325 Kier Shares, representing, in aggregate, approximately 6.16 per cent. of Kier's issued share capital.

Kier has therefore received irrevocable undertakings or a letter of intent in respect of a total of 2,593,708 Kier Shares, representing, in aggregate, approximately 6.52 per cent. of Kier's issued share capital.

19 Overseas Shareholders

United States

The New Kier Shares have not been, and will not be, registered under the US Securities Act or under the securities laws of any state, district or other jurisdiction of the United States. Accordingly, the New Kier Shares may not be offered, sold, resold, delivered, distributed or otherwise transferred, directly or indirectly, in, into or from the United States absent registration under the US Securities Act or an exemption therefrom. It is expected that the New Kier Shares will be issued in reliance on the exemption from the registration requirements of the US Securities Act provided by section 3(a)(10) thereof. To qualify for the exemption from the registration requirements of the US Securities Act provided by section 3(a)(10) of that Act with respect to the New Kier Shares issued pursuant to the Scheme, Kier and May Gurney will advise the Court that Kier will rely on the section 3(a)(10) exemption based on the Court's sanctioning of the Scheme, which will be relied upon by Kier as an approval of the Scheme following a hearing on its fairness to Scheme Shareholders at which hearing all such shareholders will be entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been or will be given to all such May Gurney Shareholders.

The New Kier Shares to be issued pursuant to the Scheme generally should not be treated as "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act and persons who receive securities in the Scheme (other than "affiliates" as described in the paragraph below) may resell them without restriction under the Securities Act.

Under the US securities laws, a Scheme Shareholder who is deemed to be an affiliate of Kier or May Gurney before completion of the Scheme may not resell New Kier Shares received pursuant to the Scheme in the United States without registration under the Securities Act, except pursuant to an applicable exemption from the registration requirements of the Securities Act or in a transaction not subject to such requirements. For purposes of the US Securities Act, an "affiliate" is a person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, Kier or the Enlarged Group. "Control" means the possession, direct or indirect, of the power to direct or cause direction of the management and policies of an issuer, whether through the ownership of voting securities, by contract or

otherwise. Whether a person is an affiliate of a company for purposes of the US Securities Act depends on the circumstances, but affiliates of a company can include certain officers and directors and significant shareholders.

Persons who believe they may be affiliates of Kier or May Gurney should consult their own legal advisers prior to any sale of securities received in the Scheme.

The New Kier Shares will not be registered under the securities laws of any state of the United States, and will be issued in the United States pursuant to the Scheme in reliance on available exemptions from such state law registration requirements.

The New Kier Shares have not been, and will not be, listed on a US securities exchange or quoted on any inter-dealer quotation system in the United States. Kier does not intend to take any action to facilitate a market in New Kier Shares in the United States. Consequently, Kier believes that it is unlikely that an active trading market in the United States will develop for the New Kier Shares.

Kier does not intend to register any such New Kier Shares or part thereof in the United States or to conduct a public offering of the New Kier Shares in the United States.

Neither the SEC nor any other US federal or state securities commission or regulatory authority has approved or disapproved of the New Kier Shares or passed an opinion upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

The Acquisition relates to the shares of an English company that is not registered under the US Exchange Act and is being made by means of a scheme of arrangement provided for under English company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Acquisition is subject to the disclosure requirements and practices applicable in the United Kingdom to schemes of arrangement which differ from the disclosure requirements of United States tender offer and proxy solicitation rules under the Exchange Act.

If, in the future, Kier exercises the right to implement the Acquisition by way of a takeover offer and decides to extend the offer into the United States, the offer will be made in compliance with applicable US laws and regulations including the applicable provisions of the tender offer rules under the US Exchange Act, to the extent applicable.

Financial information included (or incorporated by reference) in this document has been or will have been prepared in accordance with accounting standards applicable in the United Kingdom that may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

Scheme Shareholders who are citizens of the United States should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme, or if Kier decides to implement the Acquisition by way of a takeover offer, the takeover offer, in their particular circumstances.

Other jurisdictions

The availability of New Kier Shares under the Acquisition to persons who are not resident in, and the distribution of this document to persons who are not resident in, the United Kingdom may be affected by the laws of the relevant jurisdiction in which they are located. Such persons should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdiction. May Gurney Shareholders who are in any doubt regarding such matters should consult an appropriate independent professional adviser in the relevant jurisdiction without delay.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER FOR SALE OF ANY SECURITIES OR AN OFFER OR AN INVITATION TO PURCHASE ANY SECURITIES. MAY GURNEY SHAREHOLDERS ARE ADVISED TO READ THIS DOCUMENT CAREFULLY AS WELL AS THE SCHEME DOCUMENT AND THE FORMS OF PROXY ONCE THESE HAVE BEEN DESPATCHED.

Overseas Shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

20 The New Kier Shares

The New Kier Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing Kier Shares. The New Kier Shares will be created under the Companies Act and the legislation made there under, will be issued in registered form and will be capable of being held in both certificated and uncertificated form. The other rights attached to the New Kier Shares are set out in paragraph 3 of Part XI of this document. Approval of the issue of the New Kier Shares will be sought at the Kier General Meeting. A summary of the resolutions to be proposed at the Kier General Meeting in connection with the creation and issue of New Kier Shares is set out in paragraph 22 of this Part I.

21 Reserving the right to proceed by way of an offer

Kier reserves the right to elect to implement the Acquisition by way of an offer for the entire issued and to be issued ordinary share capital of May Gurney not already held by Kier as an alternative to the Scheme. In such an event, an offer would be implemented on the same terms (subject to appropriate amendments), so far as applicable, as those which would apply to the Scheme.

If the Acquisition is effected by way of an offer and such offer became or was declared unconditional in all respects, and sufficient acceptances were received, Kier would intend to: (i) request the London Stock Exchange to cancel trading in May Gurney Shares on AIM; and (ii) exercise its rights to apply the provisions of Chapter 3 of Part 28 of the Companies Act to acquire compulsorily the remaining May Gurney Shares in respect of which the offer had not been accepted.

22 Kier General Meeting

The notice convening the Kier General Meeting, at which the Resolutions will be proposed, is set out at the end of this document, on pages 322 and 323. The full text of the Resolutions is set out in the Notice of General Meeting found at the end of this document, on page 322.

In addition to the Conditions to the Scheme described above, the implementation of the Acquisition is conditional upon the passing of the Resolutions.

The Resolutions

All three Resolutions will be proposed as ordinary resolutions requiring a simple majority of votes in favour. The Acquisition will not proceed if the Resolutions are not passed.

Resolution 1

Resolution 1 proposes that, subject to resolutions 2 and 3 being passed, the Acquisition be approved and the Kier Directors be authorised to implement the Acquisition.

Resolution 2

Resolution 2 proposes that the Kier Directors be authorised to allot the New Kier Shares in connection with the Acquisition up to an aggregate nominal amount of £147,144.45. The allotment authority represents approximately 37 per cent. of the total issued ordinary share capital of Kier as at 13 May 2013 (being the latest practicable date prior to the publication of this document). This authority will expire on the fifth anniversary of the date of the resolution and is in addition to any subsisting authorities to allot shares in Kier. As at 13 May 2013 (being the latest practicable date prior to the publication of this document), Kier held no treasury shares.

Resolution 2 is conditional upon, *inter alia*, the Scheme becoming Effective.

Resolution 3

Currently, under Article 98 of the Kier Articles, the Kier Group has the power to borrow up to an amount of three times adjusted capital and reserves, although borrowings above that amount are permitted if sanctioned in advance by an ordinary resolution of the Kier Shareholders. Resolution 3, if approved, will sanction an increase in the permitted borrowings of the Kier Group and, therefore, subject to and conditional upon the Scheme becoming Effective, the Enlarged Group up to an amount not exceeding the greater of three times adjusted capital and reserves (which, in respect of the Kier Group, is currently approximately £300 million on the basis of the calculation set out in Article 98 of the Kier Articles) and £550 million, which is considered by the Kier Board to be appropriate for the Enlarged Group taking into account the aggregate of the borrowing facilities currently available to the Kier Group and the May Gurney Group and under the Acquisition Facility Agreement and certain guarantees (with respect to borrowings) provided by the Kier Group and expected to be provided by the Enlarged Group.

Resolution 3 is conditional upon the Scheme becoming Effective.

23 Actions to be taken

Existing Kier Shareholders will find enclosed with this document a Form of Proxy for use at the Kier General Meeting. You are requested to complete and sign the Form of Proxy whether or not you propose to attend the Kier General Meeting in person in accordance with the instructions printed on it so as to be received by Kier's registrar, Capita Registrars, as soon as possible, and in any event no later than 10.00 a.m. on 12 June 2013.

If you hold Existing Kier Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Kier's agent (ID RA10) in accordance with the procedures set out in the notice convening the Kier General Meeting at the end of this document on page 322. The completion and return of a Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting in person at the Kier General Meeting or any adjournment thereof, if you wish to do so and are so entitled.

24 Further information

Your attention is drawn to the further information set out in Part II to Part XI (inclusive) of this document and, in particular, to the risk factors on pages 18 to 28 (inclusive) of this document.

25 Financial advice

The Kier Directors have received financial advice from J.P. Morgan Cazenove and Numis in relation to the Acquisition. In providing its advice, each of J.P. Morgan Cazenove and Numis has relied upon the commercial assessments of the Kier Directors.

26 Recommendation

The Kier Board believes the Acquisition and the other Resolutions to be in the best interests of Kier and Kier Shareholders as a whole. Accordingly, the Kier Board recommends that Kier Shareholders vote in favour of the Resolutions as the Kier Directors have irrevocably undertaken to do in respect of 140,383 Kier Shares representing in aggregate approximately 0.35 per cent. of the issued ordinary share capital of Kier on 13 May 2013 (being the latest practicable date prior to this the publication of this document).

Yours faithfully,



Phil White
Chairman

14 May 2013

PART II

INFORMATION ON KIER

The selected historical financial information and other historical financial information in relation to the Company referred to in Part II of this document has, unless otherwise stated, been extracted without material adjustment from the audited financial information of the Company for the financial years ended 30 June 2010, 30 June 2011 and 30 June 2012, which has been prepared in accordance with IFRS, as well as the unaudited financial information of the Company for the six months ended 31 December 2012, all as referred to in Part V of this document.

Investors should read the whole of this document and the documents incorporated herein by reference and should not just rely on the financial information set out in Part II of this document.

1 Introduction

The Kier Group is a leading construction, services and property group specialising in building and civil engineering, support services, commercial property development, structured property financing and private and affordable housing and is a member of the FTSE 250 index. Kier brings solutions, locally or nationally, to clients at any stage of the built environment life-cycle. Kier's network of regional offices and its strong local relationships ensure that it can supply both the skills and the resources to meet its customers' demands.

2 History

Kier was incorporated and registered in England and Wales on 21 April 1992. It is headquartered at Tempsford Hall, Sandy, Bedfordshire.

Kier's origins date back to the early 1920s. Kier was the subject of a management-led employee buyout from the Hanson Group in 1992 and floated on the London Stock Exchange in 1996. The Kier Group has grown organically and through a number of acquisitions. It launched its support services division in 2001.

3 Principal markets

The Kier Group operates in the UK construction, services and property development markets and, overseas, principally in the construction markets in the Caribbean, Middle East and Far East.

Kier's construction division contributed revenues of £1.38 billion in 2012, £1.44 billion in 2011 and £1.42 billion in 2010. Kier's services division contributed revenues of £444.9 million in 2012, £483.8 million in 2011 and £470.7 million in 2010. Kier's property division contributed revenues of £240.8 million in 2012, £250.5 million in 2011 and £211.0 million in 2010.

4 Operating divisions

The Kier Group operates through three main divisions: construction, services and property. Kier's activities span building, civil engineering, surface mining, building maintenance, facilities management, environmental services, property development, structured property financing and house-building.

For information on the risks relating to Kier's existing business, your attention is drawn to the "Risk Factors" section of this document.

4.1 Construction division

Kier's construction division encompasses UK regional contracting, civil engineering and overseas businesses, which are highly skilled in the construction of the full range of building projects, together with power, waste, nuclear and infrastructure facilities and rail and mining projects.

This division comprises a strategically-positioned UK network of locally-managed regional contracting businesses, together with national and international major building, civil engineering and mining capabilities.

The Kier construction division's long-term relationships include those with Sainsbury's, Argent and MTRC.

4.2 *Services division*

The Kier services division comprises three main businesses:

- Maintenance: providing both reactive and planned maintenance, principally to local authorities and housing associations;
- Facilities Management: providing services to public and private sector clients; and
- Environmental: offering services for domestic and commercial waste collection and the management and operation of a major recycling facility and street scene and grounds maintenance.

The Kier services division's long-term contracts include those with Stoke City Council and North Tyneside Council.

4.3 *Property division*

The Kier property division comprises three main businesses:

- commercial, industrial, retail and mixed-use property development;
- structured property financing; and
- house-building, including both private and affordable housing.

Kier's property division undertakes development, investment and house-building activities. Working with its own portfolio of assets or in partnership with others, it is able to deliver a variety of different schemes.

For many clients, relationships with Kier span two or more Kier divisions: for example, in relation to the recently awarded London and Staffordshire Fire Services' PFI projects, Kier's property division will provide the structured finance, Kier's construction division will build the fire stations and Kier's services division will provide maintenance services.

5 Current strategic priorities

The current strategic priorities of the Kier Group include:

- Staying focused: positioning the Kier business to ensure it is in a strong position when the economy begins to recover. This includes training and developing its leaders and investing in new business and resources, but also ensuring that all of its business processes are sufficiently robust for growth;
- Pushing boundaries: the vigilant search for new business opportunities, while being risk-aware, through a concentration on growth markets, either through acquisition or organic growth;
- Optimising capabilities: the total integration of people within the Kier Group to further enhance its service to clients; and
- Maximising assets: to continue to review and improve the Kier Group's employee training and development based upon the feedback, workshops and action plans formulated following its employee engagement surveys.

6 Employees

The average number of employees (excluding the Kier Directors) of the Kier Group for each of the previous three financial years was as follows:

<i>Year ended</i>	<i>Employees</i>
30 June 2010	11,597
30 June 2011	10,676
30 June 2012	10,768

7 Property

The Kier Group operates from a number of freehold and leasehold properties in the United Kingdom. The Kier Group's principal properties are as follows:

<i>Property location</i>	<i>Approximate area (sq. ft)</i>	<i>Property use</i>	<i>Tenure and approximate unexpired term (if applicable)</i>	<i>Lease rate (£) per annum</i>
Tempsford Hall, Sandy, Bedfordshire SG19 2BD	52,747	Office	Freehold	N/A
6 Cavendish Place, London W1G 9NB	12,492	Office	Leasehold ⁽¹⁾	580,000
2 Langston House, Loughton, Essex IG10 3SD	23,034	Office	Freehold	N/A
Kier House, Windward Drive, Estuary Park, Speke, Liverpool L24 8RF	14,897	Office	Leasehold ⁽²⁾	193,050
Southern Cross, Basing View, Basingstoke, Hampshire RG21 4HG	26,292	Office	Leasehold ⁽²⁾	272,724
1st Floor, Tungsten Building, Blythe Valley Park, Solihull, B90 8AF	23,325	Office	Freehold	N/A
96 Leckhampton Road, Cheltenham GL53 0BP	23,768	Office	Freehold	N/A
Manor Lane, Sheffield, S2 1TR	100,416	Office	Leasehold	361,000

In addition, the Kier Group has made several property investments, which are described in paragraph 9 of this Part II.

8 Safety, health and environment

The health and safety of the Kier workforce is of fundamental importance to the Kier Group. Kier aims to provide an environment that is free from harm by providing a positive safety culture and improving the health and well-being of its workforce.

Kier continues to seek to eliminate workplace injuries and to increase its employees' awareness of occupational health and well-being. Whilst it delivered a reduction in its accident incidence rate during the year ended 30 June 2012, Kier continues to strive towards the goal of zero harm.

Kier's Positive Safety Leadership Programme, introduced to the Kier construction division in 2008, is now firmly embedded and is being rolled out across the rest of the Kier Group. This programme encourages active discussion within the workforce on safety-specific issues as well as supply chain members.

Kier has an Environmental Management System which has been certified to ISO 14001:2004 by The British Standards Institution. Kier aims to ensure that it manages all of its projects (and their impact) effectively so as to prevent pollution and protect the environment. Accordingly, Kier is committed to working with its

1. 13 years remaining.

2. 5 years remaining.

customers and supply chain to, wherever possible, reduce the impact of its operations on climate change, effectively manage the waste produced by its business and source materials from sustainable sources.

9 Investments

9.1 Equity and loan investments

In the financial year ended 30 June 2010, the Kier Group invested by way of equity or loan:

- £3,105,000 in land at Milehouse Lane, which is a residential development in Newcastle-under-Lyme, Staffordshire;
- £2,852,000 in land at Reading Science Enterprise Centre, White Knight Road, Reading, which is an office development in Berkshire; and
- £1,000,000 in land at Solum, in relation to a joint venture with Network Rail for the development and regeneration of Network Rail land and stations (see paragraph 5.5 of Part XI of this document).

In the financial year ended 30 June 2011, the Kier Group invested by way of equity or loan:

- £9,945,000 in Reading Science Enterprise Centre, White Knight Road, Reading, which is an office development in Berkshire;
- £7,594,000 in land at Milehouse Lane, which is a residential development in Newcastle-under-Lyme;
- £6,678,000 in Kier (Kent) PSP Limited and Kent PFI Holding Company 1 Limited, being for the construction and operation of schools in Kent;
- £4,939,000 in the Tungsten Building, Central Boulevard, Blythe Valley Park, Solihull, which is an office development in Solihull; and
- £1,529,000 in land at Lakeside Boulevard, Doncaster, which is a hotel development in South Yorkshire;

In the financial year ended 30 June 2012, the Kier Group invested by way of equity or loan:

- £5,244,000 in land at Maylands Avenue, which is a hotel development in Hemel Hempstead;
- £3,565,000 in Compass House, Romsey Road, which is an office development in Southampton;
- £3,366,867 in Justice Support Services (Norfolk and Suffolk) (Holdings) Limited, which is a joint venture among Kier, Uberior Infrastructure Investments No. 4 Limited and Reliance Security Group, established for the construction and operation of police investigation centres in Norfolk and Suffolk;
- £2,892,000 in land at Lakeside Boulevard, Doncaster, which is a hotel development in South Yorkshire;
- £2,698,000 in Bell Green Retail Park, Sydenham, which is a retail development in Sydenham;
- £2,500,000 in Solum, in relation to a joint venture with Network Rail for the development and regeneration of Network Rail land and stations; please see paragraph 5.5 of Part XI of this document;
- £2,476,000 in land at Brooklands Close, which is an industrial development in Sunbury;
- £2,432,000 in Kier Park, Cowley Mill Road, Uxbridge, which is a mixed use development in London;
- £2,215,000 in land at High Street West, which is a hotel development in Sunderland;
- £2,032,000 in land at Romsey Road, which is a mixed use development in Southampton;

- £1,750,000 in land at Easthampstead Road, which is an industrial development in Bracknell;
- £1,593,900 in Blue3 (Gloucestershire Fire) Limited, which is a wholly-owned subsidiary of Blue3 (Gloucestershire Fire) (Holdings) Limited, a joint venture among Kier, CardenCroft Bluethree Limited and Reliance Security Group, established for the construction and operation of fire stations in Gloucestershire;
- £1,386,000 in 3 Savile Row, which is a retail development in London;
- £1,325,000 in Adanac Park, Redbridge Lane, which is an office development in Southampton; and
- £1,050,000 in Social Power (Harlow) Limited to install solar panels on the roofs of properties in Essex, Worcestershire and Cambridgeshire.

In the six months ended 31 December 2012, the Kier Group invested by way of equity or loan an investment in Biogen (see paragraph 5.7 of Part XI of this document).

9.2 *Transfers to the Kier Group Pension Scheme*

In the financial year ended June 2011, the Kier Group transferred to the Kier Group Pension Scheme:

- £2,274,130 of shares and loan notes in Academy Services (Sheffield) (Holdings) Limited.

In the financial year ended June 2012, the Kier Group transferred to the Kier Group Pension Fund:

- £1,045,400 of shares and loan notes in Prospect Healthcare (Hinchingsbrooke) (Holdings) Limited.

9.3 *Committed future equity and loan investments*

The Kier Group has made firm commitments to invest by way of equity or loan:

- £43,000,028 in land at Princess Road, which is a mixed use development in Manchester;
- £41,085,000 and a further £8,365,000 in Bell Green Retail Park, Sydenham, which is a retail development in Sydenham;
- £16,902,000 in land at Catterick Garrison, which is a retail development in Catterick, Richmondshire;
- £15,526,000 and a further investment of £3,690,000 in land at Western International Park, Hayes Road, Hayes, which is a mixed use development in Middlesex;
- £15,000,000 of loans and equity in a joint venture with Watford Borough Council and Watford Health Trust to redevelop a site in Watford;
- £11,288,000 in land at Lyon Way, Frimley, which is an industrial development in Surrey;
- £10,944,000 in land at Midland Road, Royston, which is a mixed use development in Barnsley;
- £7,718,000 in land at Forest Road, which is an industrial development in Feltham;
- £6,337,000 and a further investment of £135,000 in Kier Park, Cowley Mill Road, Uxbridge, which is a mixed use development in London;
- £6,334,000 in land at Romsey Road, which is a mixed use development in Southampton;
- £5,619,000 of loans to Berryhill 1 Limited, a company registered in the Isle of Man and joint venture between Mountgrange LLP and Generate Land Limited (both UK registered entities) to construct a business park in Bridge of Don, Aberdeen;
- £4,389,000 in land at Newtown Works, Ashford, which is a residential development in Kent;
- £3,332,000 in land at Easthampstead Road, which is an industrial development in Bracknell;

- £2,546,000 in land at Romsey Road, which is a mixed use development in Southampton;
- £2,500,000 in Solum, which is a joint venture with Network Rail for the development and regeneration of Network Rail land and stations (see paragraph 5.5 of Part XI of this document);
- £1,277,000 in land at Maylands Avenue, which is a hotel development in Hemel Hempstead;
- £2,331,200 of equity in Blue3 (Staffordshire Fire) (Holdings) Limited which is a joint venture among Kier and CP Bluethree (Staffs) Limited, established for the construction and maintenance of fire stations in Staffordshire;
- £2,252,500 of loan stock and equity in Blue3 (London Fire) (Holdings) Limited, a joint venture among Kier and DIF Infrastructure No. 3 Limited to construct and maintain fire stations in London;
- £2,079,000 in Western International Park, Hayes Road, Hayes, which is an industrial development in Middlesex;
- £2,012,125 of loan stock and equity in a company (name to be determined), a joint venture among Kier and Thames Valley Housing Association to deliver social housing in Woking;
- £2,000,000 of loan stock and equity in a company (name to be determined), a joint venture among Kier, Equitix Limited, Campus Living Villages Limited and John Graham Construction Limited to deliver student accommodation in Salford;
- £2,000,000 in Audit House, 58 Victoria Embankment, which is an office development in London;
- £1,790,000 in land off Terry Drive, Signal Hayes Road, Walmley, which is a residential development in Sutton Coldfield;
- £1,751,000 in land at High Street West, which is a hotel development in Sunderland;
- £1,635,000 in land at Maylands Avenue, which is a hotel development in Hemel Hempstead; and
- £1,577,000 in land at Black Rock Mills, Waingate, Linthwaite, which is a residential development in Huddersfield.

The investments referred to in paragraph 9 of this Part II use or will use a mix of internal and external funding sources. The external source is likely to be from financial institutions.

In addition, the Kier Group entered into a heads of terms on 19 March 2013 with ATCO LLC, a company incorporated in the Kingdom of Saudi Arabia, for the construction of development projects in the Kingdom of Saudi Arabia. Kier currently expects that the joint venture will be financed by the joint venture shareholders without using third-party financing.

PART III

INFORMATION ON MAY GURNEY

The selected historical financial information in relation to May Gurney referred to in Part III of this document has been extracted without material adjustment from the audited financial information of May Gurney for the financial years ended 31 March 2012, 31 March 2011 and 31 March 2010, which has been prepared in accordance with IFRS, as well as the unaudited interim financial information of the Company for the six months ended 30 September 2012, all as set out in Part VII of this document.

Investors should read the whole of this document and the documents incorporated herein by reference and should not just rely on the financial information set out in Part III of this document.

1 Background and history

May Gurney Limited was founded in 1926, its initial business activities involving water and sewerage, sea defence and flood protection works and works for local authorities on the road network. Later, it began to provide pile driving services and these civil engineering activities formed the basis of the May Gurney Group's development over the next 30 years.

In the late 1950s, a policy of controlled growth resulted in the foundation of the May Gurney Group and over the following 30 years it established itself as a major regional (primarily Norfolk-based) construction company for projects including airfield runways, roadways, dredging, piling, bridge building, sewage treatment, road surfacing and surface dressing.

In 1989, the management team at the time effected an MBO and, during the mid-nineties, May Gurney became involved in partnering contracts in the public sector for the first time.

In June 2004, May Gurney acquired TJ Brent, a specialist services provider to the utilities sector. TJ Brent was a complementary acquisition, enabling the May Gurney Group to focus on long-term relationships based on partnered framework contracts.

May Gurney also added additional specialist expertise in railway signalling, design and testing via the acquisition of the trade and assets of Hawthorns Project Management Limited in June 2005.

May Gurney's share capital was admitted to trading on AIM, a market of the London Stock Exchange, in June 2006.

In March 2007, May Gurney acquired AC Chesters Limited, a mechanical and electrical (M&E) contractor with customers in the water sector.

In July 2007, May Gurney acquired FDT (Holdings) Limited. FDT's principal activity was the provision of inspection and maintenance services in relation to assets in the mobile telecommunications industry and highways engineering sectors.

In February 2008, May Gurney acquired the trade and assets of the Southern Household Recycling Centre business from Environmental Waste Controls Limited. This was followed, in June 2008, by the acquisition of ECT Recycling CIC and ECT Engineering Limited, a leading operator in the municipal waste recycling sector. These businesses were combined to create May Gurney's Environmental Services operations.

In January 2011, May Gurney acquired Turriff Group Limited ("Turriff"), one of Scotland's largest utility infrastructure maintenance companies.

In November 2011, May Gurney acquired the entire issued share capital of Senturion Group Limited, trading as TransLinc, a leading provider of specialist Fleet & Passenger services in the UK to local authorities.

As at the date of this document, May Gurney's principal activities are highway services, environmental services and Fleet & Passenger services for the public sector, and utility services, rail services and waterways services for the regulated sector.

2 Nature of operations and principal activities

May Gurney is headquartered in Trowse, Norfolk and had over 60 offices and approximately 6,000 employees working at over 230 locations across the UK as at 31 March 2012. May Gurney is a support services company, committed to helping its clients in the public and regulated sectors deliver sustainable improvements to front-line services, including maintaining road, utility, rail and waterways networks and public buildings and ensuring that household refuse is collected, managed and recycled.

May Gurney delivers its services through two client-aligned divisions: Public Sector Services and Regulated Sector Services. All of May Gurney's contracts are long-term and are delivered locally, in a "place-based" approach to integrated service delivery.

2.1 Public sector services

May Gurney's Public Sector Services division operates across three main areas, each with a number of service lines: Highways Maintenance, Environmental Services and Fleet & Passenger Services.

Highway Services

May Gurney is a leading highways maintenance services provider to local authorities. May Gurney maintains almost 31,500 kilometres of roads and more than 330,000 street lights and illuminated road signs across the UK. May Gurney delivers highway services to local authorities under long-term contracts. May Gurney's core highway services include highways maintenance, street lighting and road surface dressing.

Environmental Services

May Gurney is the fourth-largest provider of municipal waste collection services in the UK, covering more than 2 million households. May Gurney works with local authorities to develop better waste collection strategies to extract the maximum value from recycled materials and to reduce the amount of waste going to landfills. May Gurney's core environmental services include kerbside recycling (MaGOS™), refuse collections, street cleansing and the management of household waste recycling centres.

Fleet & Passenger Services

Following May Gurney's acquisition of TransLinc in 2011, May Gurney is one of the UK's leading providers of end-to-end fleet management and passenger services to local authorities. May Gurney manages over 6,000 specialist vehicles across over 100 locations and carries several thousand passengers a day (home-to-school, social services, demand response and corporate shuttle). The specialist vehicles May Gurney supplies and manages include waste and recycling trucks, snow-ploughs/gritters, street sweeping and cleaning vehicles and HGVs. TransLinc's operations have been integrated with May Gurney's existing plant and transport operations and renamed "Fleet & Passenger Services".

Facility Services

May Gurney has historically built schools under long-term contracts for local authorities. May Gurney has announced that this is a non-core activity and that it is planning to fulfil its existing client obligations.

2.2 Regulated sector services

May Gurney's Regulated Sector Services division operates across three main areas: utility services, rail services and waterways services.

Utility Services

May Gurney delivers utility maintenance and asset enhancement services in water, gas, power and telecommunications across the UK. May Gurney's core utility services include clean and waste water

improvements, asset and infrastructure maintenance, multi-utility services, mechanical and electrical design and maintenance, inspection and maintenance for bridges and masts and design.

Rail Services

May Gurney works in long-term partnership with its principal client, Network Rail, to deliver maintenance and refurbishment works on rail structures, rail property and in signalling. May Gurney is currently engaged in several key projects, including an element of the high-profile collaborative Network Rail project on the Great Northern/Great Eastern Joint Line between Peterborough and Doncaster. May Gurney is also working on the Major A Minor Works framework contract with BRB Residuary, which covers works north of the Humber and the Mersey, including Scotland. May Gurney has won numerous awards for the quality of its rail services work and its solid safety record.

Waterways Services

May Gurney delivers projects for the regeneration, maintenance and renaissance of the UK's waterways network. May Gurney provides maintenance services, including mechanical, civil and electrical engineering for the Canal & River Trust (formerly British Waterways) across the national canal and river network infrastructure and is the Canal & River Trust's sole contractor. May Gurney also works closely with the Environment Agency in order to protect communities from coastal and river flooding by constructing and maintaining flood protection assets.

3 Principal markets

The overall total annual value of the public and regulated sector markets in which May Gurney is active amounts to approximately £23.1 billion. This figure is the aggregate value of the markets which May Gurney's Public Sector Services division services (approximately, £12.5 billion) and the markets which May Gurney's Regulated Sector Services division services (approximately, £10.6 billion). These values have been calculated by reference to information provided by the Association of Directors of Environment, Economy, Planning and Transport, the Highways Agency, the Department of Transport, the UK National Statistics Publication Hub, OFWAT, and the HM Treasury website on Public Spending review breakdowns.

3.1 Public sector

In the financial years ended 31 March 2010, 2011 and 2012, May Gurney's Public Sector Services division contributed approximately £283.7 million, £376.3 million and £418.2 million, respectively, to May Gurney's total revenue.

Highway Services

The market for local authority highways maintenance in England was worth approximately £2.6 billion per annum in 2011 (the year for which the most recent data is available) and May Gurney's estimated share is 11 per cent. May Gurney maintains nearly 31,500 kilometres of the 285,000 kilometres of road across England. The local authority street lighting segment was worth around £780 million per annum, in 2011 (the year for which the most recent data is available) of which May Gurney had an estimated market share of 6 per cent. in England and 27 per cent. in London.

Environmental Services

The environmental sector market was worth in the region of £3.1 billion per annum in 2011 (the year for which the most recent data is available). In addition, the segment for street cleaning, which is often included within environmental services contracts, was worth around £900 million per annum. May Gurney has estimated market shares of 5 per cent. of the outsourced municipal collections segment, making it the fourth-largest operator in this area, and 9 per cent. of the household waste recycling centre segment. Key market drivers are the increase in landfill tax and local authority recycling targets.

Fleet & Passenger Services

May Gurney is one of the UK's leading providers of outsourced fleet services to local authorities with an estimated share of 8 per cent. This sector was worth £730 million per annum in 2010 (the year for which the most recent data is available) and remains highly fragmented. May Gurney's leading position was most pronounced in the fully outsourced sector, where May Gurney takes on the hire and full maintenance of a client's entire fleet.

In the highly fragmented £3.0 billion local authority outsourced passenger services sector, May Gurney was the fifth-largest supplier in the UK in 2010 (the year for which the most recent data is available) with a share of 0.5 per cent. Outsourcing rates in this immature sector currently stand at 50 per cent. to 60 per cent., offering good opportunities for growth.

3.2 Regulated sector

In the financial years ended 31 March 2010, 2011 and 2012, May Gurney's Regulated Sector Services division contributed approximately £199.4 million, £195.1 million and £277.1 million, respectively, to May Gurney's total revenue.

Utility Services

The recent transfer of private drains and sewers to the water companies is creating additional opportunities to benefit from the water companies' spending on capital maintenance. In addition, the projected investment by the water industry for the current AMP5 is set to exceed the industry's investment during AMP4.

The new regulatory period for the gas industry, RIIO-GD1, starts in April 2013 and will be eight years long, with Ofgem putting new focus on efficiency, safety, customer satisfaction and environmental issues. This mirrors the recent developments in the water market and means May Gurney's experience in delivering on these issues for existing clients should place May Gurney in a strong position to secure additional work in the new regulatory period.

Rail Services

There has been a move towards a route-orientated industry and a greater degree of collaboration and partnering, driven both by the appointment of the new leadership of Network Rail and the Value for Money Study by Sir Roy McNulty. This plays to May Gurney's core strengths.

Planned maintenance expenditure by Network Rail over Control Period 4 (2009 to 2014) is worth on average over £1 billion per annum. This is supplemented by enhancements expenditure, worth on average approximately £1.5 billion per annum.

Waterways Services

May Gurney delivers over £20 million of work per annum for Canal & River Trust (and its private partners). Total UK Government expenditure for flooding and coastal erosion risk management is budgeted at £2.45 billion for the four-year spending period which began in 2011.

4 Current trends and prospects

4.1 6 September 2012 trading update

On 6 September 2012, May Gurney released a trading update in which it stated that serious operational issues with respect to two long-term MaGOS™ contracts and the planned run-down of its Facility Services division, combined with the ongoing difficulties within May Gurney's Scottish Utilities business, had led May Gurney's Board to conclude that the May Gurney Group would significantly underperform its original expectations for the year ended 31 March 2013. The 6 September 2012 trading update is summarised below:

MaGOS™

With regard to MaGOS™, May Gurney stated that despite delivering a quality service, targeted margins had not been achieved, and May Gurney was taking stringent actions to drive operational efficiencies and profitability. These contracts represent 3 per cent. of May Gurney's historic revenues per annum and are spread over terms of seven to 14 years. The other contracts within Environmental Services were performing in line with expectations.

Facility Services

In March 2012, May Gurney announced that it planned to run down its Facility Services business. It was stated that this process was continuing but significant exiting costs were now anticipated to be incurred. May Gurney expected to make a final closure provision in the order of £10 million for 2012.

Scottish utilities

The utilities business in Scotland faced challenges. In particular, Scotia Gas Networks indicated that it planned to reduce its outsourcing, in line with its submission to the Regulator. Accordingly, May Gurney took the prudent action of reducing its related revenue forecasts.

Board changes

The May Gurney CEO, Philip Fellowes-Prynne, left May Gurney by mutual consent with immediate effect. Willie MacDiarmid, a non-executive director of the May Gurney Group, took on the role of CEO on an interim basis.

Underlying performance and order book

The underlying performance of the rest of the May Gurney business was sound, in line with previous announcements, and May Gurney continued to actively bid for new business on a disciplined basis. Momentum was maintained as regards the order book of £1.5 billion. In addition £86 million of new work as well as £50 million of contract extensions had been won since year end, which gave the May Gurney Group good forward visibility of revenues.

TransLinc

May Gurney stated that the acquisition of TransLinc, which delivered a portfolio of highly complementary fleet management and passenger services to penetrate the £730 million per annum local authority specialist fleet services and £3 billion local authority passenger services sectors, was on track to deliver the earnings enhancement cited at the time of its acquisition in November 2011.

4.2 *Interim results announced 4 December 2012*

On 4 December 2012, May Gurney announced its interim results for the six months ended 30 September 2012. These are summarised below:

- May Gurney delivered a performance in line with its revised expectations during the six months ended 30 September 2012. It generated revenues of £338.9 million (six months ended 30 September 2011: £324.7 million) and underlying EBITA of £12.6 million (six months ended 30 September 2011: £14.7 million), achieving an operating margin of 3.7 per cent. (six months ended 30 September 2011: 4.5 per cent.) after bidding and mobilisation costs which, in line with May Gurney's prudent accounting policy, were written off as incurred.
- May Gurney remained a cash generative business with cash generated from continuing operations of £15.4 million (six months ended 30 September 2011: £17.7 million), representing more than 100 per cent. of underlying EBITA.
- The plans May Gurney put in place to address the three ring-fenced issues it highlighted on 6 September 2012 were stated to be on track. Specifically, May Gurney has significantly reduced those operations in Scotland supporting Scotia Gas Networks ("SGN"); is discontinuing its Facility Services business (a £10 million charge was taken in relation to the

closure); and is continuing to work with clients on the two MaGOS™ environmental services contracts – these are complex contracts and May Gurney expects this process to continue during the first half of 2013. May Gurney continues to target resilient, maintenance-focused revenue streams for essential services by developing long-term relationships with its clients and local communities. Its strong commercial market positions are reflected by the fact that it secured more than £314 million of business in the six months ended 30 September 2012, including more than £164 million in new contracts, primarily from its Waterways and Fleet & Passenger Services operations, and a seven-year extension to its environmental services contract with Somerset Waste Partnership (SWP), valued at £100 million. May Gurney's forward order book has been maintained at £1.5 billion, with a further £1.7 billion in potential contract extensions, and its bidding pipeline at 30 September 2012 stood at approximately £4 billion.

In the interim results announcement summarised above, May Gurney set out details regarding underperforming MaGOS™ contracts. Since that date, May Gurney has continued to take actions to drive operational efficiencies and profitability on those MaGOS™ contracts and has remained in close dialogue with the relevant contract counterparties with the aim of improving the financial performance of those contracts. Whilst progress has been made, the MaGOS™ contracts as a whole will, as expected, incur a significant loss for the year ended 31 March 2013 and much remains to be achieved in order to return the financial performance of the underperforming contracts to an acceptable level.

PART IV

OPERATING AND FINANCIAL REVIEW OF KIER

The following discussion of Kier's financial condition and results of operations should be read in conjunction with the historical financial information on Kier and the notes related thereto referred to in Part V of this document (which have been incorporated by reference in this document). Except as otherwise stated, the financial information included in this Part IV has been extracted without material adjustment from the financial information referred to in Part V of this document. The historical financial information referred to in this discussion has been prepared in accordance with IFRS.

The following discussion of Kier's results of operations and financial condition contains forward-looking statements. Kier's actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this document, particularly in sections headed "Risk Factors" and "Forward-Looking Statements".

1 Documents incorporated by reference

The operating and financial reviews included in the following documents are incorporated by reference in this document:

- Kier's 2010 Annual Report and Accounts;
- Kier's 2011 Annual Report and Accounts;
- Kier's 2012 Annual Report and Accounts; and
- Kier's 2013 Interim Results.

2 Cross-reference list

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference in this document.

2.1 *Kier's 2010 Annual Report and Accounts*

The page numbers below refer to the relevant pages of Kier's 2010 Annual Report and Accounts:

• Overview	–	1-3
• Chairman's Statement	–	4-5
• Chief Executive Review	–	6-34
• Divisional Performance		
• Kier Construction	–	16-21
• Kier Services	–	22-25
• Kier Partnership Homes	–	26-29
• Kier Developments	–	30-34
• Financial Review	–	42-44

2.2 *Kier's 2011 Annual Report and Accounts*

The page numbers below refer to the relevant pages of Kier's 2011 Annual Report and Accounts:

• Overview	–	1-3
• Chairman's Statement	–	4-5
• Chief Executive's Review	–	6-29
• Divisional Performance:		
• Kier Construction	–	12-17
• Kier Services	–	18-21
• Kier Property	–	22-25
• Kier Homes	–	26-29
• Corporate Responsibility	–	30-33
• Financial Review	–	34-38
• Business Risks	–	39-41

2.3 *Kier's 2012 Annual Report and Accounts*

The page numbers below refer to the relevant pages of Kier's 2012 Annual Report and Accounts:

• Overview	–	1-5
• Chairman's Statement	–	6
• Chief Executive's Review	–	8-15
• Group Strategy	–	10-14
• Divisional Performance		
• Kier Construction	–	25-29
• Kier Services	–	30-33
• Kier Property	–	34-38
• Corporate Responsibility	–	39-44
• Financial Review	–	45-50
• Business Risks	–	51-53

2.4 *Kier's 2013 Interim Results*

The page numbers below refer to the relevant pages of Kier's 2013 Interim Results:

• Group Highlights	–	3-4
• Group Strategy	–	5
• Chief Executive's Review	–	6-9
• Operational Review	–	9-10
• Consolidated Income Statement	–	10
• Consolidated Statement of Comprehensive Income	–	11
• Consolidated Statement of Changes in Equity	–	11
• Consolidated Balance Sheet	–	12
• Consolidated Cash Flow Statement	–	13

3 **Capitalisation and indebtedness**

3.1 *Capitalisation*

	<i>Notes</i>	<i>31 March 2013 (£m)</i>
Total Current Debt		
Guaranteed		–
Secured		2.8
Unguaranteed/Unsecured		–
		<hr/> 2.8
Total Non-Current Debt (excluding current portion of long-term debt) Guaranteed Subordinated Loan Capital		
Guaranteed		–
Secured		9.4
Unguaranteed/Unsecured		172.3
		<hr/> 181.7
Shareholders' Equity		
39,810,114 issued and fully paid ordinary shares of 1p each		
Share Capital		0.4
Share Premium		62.9
Retained Earnings		90.0
Other Reserves		(13.1)
		<hr/> 140.2
Total Shareholders' Equity		140.2
Total capitalisation and indebtedness		<hr/> 324.7

3.2 *Indebtedness*

The following table shows the net indebtedness of Kier as at 31 March 2013.

	<i>Notes</i>	<i>31 March 2013 (£m)</i>
A. Cash	1	100.2
B. Cash equivalent		–
C. Trading securities		–
D. Liquidity (A) + (B) + (C)		100.2
E. Current financial receivable		–
F. Current bank debt		–
G. Current portion of non-current debt		–
H. Other financial debt		2.8
I. Current financial debt (F) + (G) + (H)		2.8
J. Net current funds (I) - (E) - (D)		97.4
K. Non-current bank loans		109.6
L. Bond issued		62.7
M. Other non-current loans		9.4
N. Non-current financial indebtedness (K) + (L) + (M)		181.7
O. Net financial indebtedness (J) + (N)		84.3

Note:

- (1) Cash includes £27.0 million in respect of the Group's share of cash held by joint arrangements and £54.1 million of cash that cannot be offset against other Group bank balances.

4 **Liquidity and capital resources**

	<i>Notes</i>	<i>31 March 2013 (£m)</i>
Total Current Debt		
Guaranteed		–
Secured		2.8
Unguaranteed/Unsecured		–
		<u>2.8</u>
Shareholders' Equity		
39,810,114 issued and fully paid ordinary shares of 1p each		
Share Capital		0.4
Legal Reserve		62.9
Other Reserves		76.9
Total Shareholders' Equity		<u>140.2</u>
Total capitalisation and indebtedness		<u>143.0</u>

Net cash (used in)/generated from operating activities

Cash from operating activities produced an outflow of £70.6 million in the six months ended 31 December 2012, and inflows of £15.9 million in the year ended 30 June 2012, £61.9 million in the year ended 30 June 2011 and £111.4 million in the year ended 30 June 2010. Interest received and tax amounted to an outflow of £8.7 million in the year ended 30 June 2011 and inflows of £1.7 million in the six months ended 31 December 2012, £1.1 million in the year ended 30 June 2012 and £2.8 million in the year ended 30 June 2010.

Dividends from joint ventures generated £0.2 million in the six months ended 31 December 2012, £0.3 million in the year ended 30 June 2012, £0.1 million in the year ended 30 June 2011 and £0.8 million in the year ended 30 June 2010.

Net cash used by investing activities

Net capital expenditure on property, plant and equipment and intangible assets amounted to £7.0 million in the six months ended 31 December 2012, £36.7 million in the year ended 30 June 2012, £15.0 million in the year ended 30 June 2011 and £10.2 million in the year ended 30 June 2010. Net proceeds from disposal of joint ventures amounted to £1.2 million in the year ended 30 June 2012, £6.9 million in the year ended 30 June 2011 and £6.7 million in the year ended 30 June 2010. In the six months ended 31 December 2012 net investment in joint ventures was £7.8 million.

The sale of a subsidiary generated £13.0 million in the six months ended 31 December 2012.

Expenditure on acquisitions totalled £30.3 million in the six months ended 31 December 2012, £4.5 million in the year ended 30 June 2012, £37.7 million in the year ended 30 June 2011 and £8.1 million in the year ended 30 June 2010.

Net cash used by financing activities

Equity dividend payments were £17.1 million (which includes £0.1 million paid to minority interests) in the year ended 30 June 2012, £14.7 million in the year ended 30 June 2011 and £18.2 million in the year ended 30 June 2010. In the year ended 30 June 2012, the exercise of options under employee share schemes generated £0.3 million.

Future liquidity, financing arrangements and commitments

Kier's working capital requirements are funded by shareholders' equity, operating cash flow and existing borrowing facilities. The management of cash continues to be of critical focus across the Group; however, cash-generation will continue to be constrained as the UK Government's requirements for the use of project bank accounts and payment terms within framework arrangements are increasingly tightening. The increasing emphasis on support service-related activities will also continue to be reflected in an increased working capital requirement.

Liquidity risk is managed by monitoring actual and forecast short- and medium-term cash flows and the maturity profile of financial assets and liabilities, and by maintaining adequate cash reserves. The nature and timing of the contract cash flows cause the working capital to vary over the month with the figure usually lowest in the middle of the month.

The Kier Group's centralised treasury function manages financial risk, principally arising from movements in foreign currency rates, interest rates and inflation rates, in accordance with policies agreed by the Kier Directors. To manage these risks, forward foreign currency sale and purchase contracts are used in respect of foreign currency requirements and interest rate swaps are used for PFI investments. The Kier Group does not enter into speculative transactions.

Customers awarding long-term contracting work may, as a condition of the award, require the contractor to provide performance and other bonds. Consequently, the Kier Group is reliant on its ability to secure bank and surety bonds. It has facilities in place to provide these bonds and monitors the usage and regularly updates the forecast usage of these facilities.

The Kier Group has committed banking facilities totalling £290 million, including a £120 million revolving credit facility and £120 million facilities under the Acquisition Facility Agreement (see paragraph 5.6 of Part XI of this document) extending to September 2016, a £30 million term loan maturing in January 2017 and £20 million overdraft facilities. Kier has also issued notes of £45 million and US\$28 million. The committed banking facilities and notes have substantially similar financial covenants based on interest cover, leverage and net tangible assets, measured semi-annually. As at 30 April 2013 (being the latest practicable date prior to the date of this document), the total amount outstanding under these facilities and notes was £172.4 million. As at 31 March 2013 (being the latest practicable date prior to the date of this document that the net financial indebtedness position is available), Kier's net financial indebtedness was £84.3 million.

PART V

HISTORICAL FINANCIAL INFORMATION RELATING TO KIER

1 Basis of financial information

The financial statements of Kier included in the Kier 2012 Annual Report and Accounts, the Kier 2011 Annual Report and Accounts and the Kier 2010 Annual Report and Accounts were unqualified. The financial statements for the years 30 June 2010, 30 June 2011 and 30 June 2012 and the six months ended 31 December 2012 were prepared in accordance with IFRS.

2 Cross-reference list

The following list is intended to enable investors to identify easily specific items of information which have been incorporated by reference in this document.

2.1 *Financial statements for the year ended 30 June 2010*

The page numbers below refer to the relevant pages of Kier's 2010 Annual Report and Accounts:

• Independent auditor's report	–	63
• Consolidated income statement	–	64
• Consolidated statement of changes in equity	–	65
• Consolidated balance sheet	–	66
• Consolidated cash flow statement	–	67
• Notes to the consolidated financial statements	–	68-98
• Financial record as at 30 June 2010	–	104

2.2 *Financial statements for the year ended 30 June 2011*

The page numbers below refer to the relevant pages of Kier's 2011 Annual Report and Accounts:

• Independent auditor's report	–	61
• Consolidated income statement	–	62
• Consolidated statement of changes in equity	–	63
• Consolidated balance sheet	–	64
• Consolidated cash flow statement	–	65
• Notes to the consolidated financial statements	–	66-98
• Financial record as at 30 June 2011	–	104

2.3 *Financial statements for the year ended 30 June 2012*

The page numbers below refer to the relevant pages of Kier's 2012 Annual Report and Accounts:

• Independent auditor's report	–	73
• Consolidated income statement	–	74
• Consolidated statement of changes in equity	–	75
• Consolidated balance sheet	–	76

• Consolidated cash flow statement	–	77
• Notes to the consolidated financial statements	–	78-110
• Financial record as at 30 June 2011	–	116

2.4 ***Interim results for the six months ended 31 December 2012***

The page numbers below refer to the relevant pages of Kier's 2013 Interim Results:

• Consolidated income statement	–	10
• Consolidated statement of changes in equity	–	11
• Consolidated balance sheet	–	12
• Consolidated cash flow statement	–	13
• Notes to the interim financial statements	–	14-19

The financial information referred to in this paragraph 2.4 of Part V of this document has not been audited.

PART VI

OPERATING AND FINANCIAL REVIEW OF MAY GURNEY

The following information should be read in conjunction with the historical financial information on May Gurney set out in Part VII of this document. The financial information included in Part VI of this document has been extracted without material adjustment from the financial information set out in Part VII of this document or has been extracted without material adjustment from May Gurney's accounting records, which formed the underlying basis of the financial information set out in Part VII of this document.

Some of the information contained in Part VI of this document, including information in respect of May Gurney's plans and strategies for its business and expected sources of financing, contains forward-looking statements that involve risk and uncertainties. Kier Shareholders, May Gurney Shareholders and potential investors should read the section of this document headed "Forward-looking Statements" for a discussion of the risks and uncertainties related to those statements and should also read the section of this document headed "Risk Factors" for a discussion of certain factors that may affect the business, results of operations or financial condition of the May Gurney Group or the Enlarged Group.

The discussion and analysis below compares the May Gurney Group's consolidated results of operations for HY2013 against HY2012, for FY2012 with FY2011 and for FY2011 with FY2010.

1 Description of May Gurney

May Gurney is a support services company headquartered in Norwich, United Kingdom. The principal activities of the May Gurney Group are the provision of highway services, environmental services, Fleet & Passenger services, utility services and rail and waterways services. These services are delivered through two business divisions, namely Public Sector Services and Regulated Sector Services.

1.1 Public Sector Services

May Gurney's Public Sector Services division includes Highway Services, Environmental Services and Fleet & Passenger Services. The addressable market is worth £12.5 billion per annum. Across the public sector services markets in which May Gurney operates, a significant proportion of each is currently delivered in-house. Recent pressures on public spending are seen as offering good opportunities for outsourcing. May Gurney is a leading player across the public sector, working with more than 50 local authorities.

Highway Services

May Gurney is a leading highways maintenance services provider for local authorities. It maintains almost 31,500 kilometres of roads and more than 330,000 street lights and illuminated road signs across the UK. May Gurney delivers highway services to local authorities, all under long-term contracts. May Gurney's core services include highways maintenance, street lighting and road surface dressing.

The sector for local authority highways maintenance in England was worth approximately £2.6 billion per annum in 2011 (the year for which the most recent data is available) and May Gurney's estimated share is 11 per cent. The markets in Scotland and Wales are worth an additional £570 million per annum. The local authority street lighting segment was worth around £780 million per annum in 2011 (the year for which the most recent data is available), of which May Gurney had an estimated share of 6 per cent. in England and 27 per cent. in London.

Environmental Services

May Gurney is the fourth-largest provider of municipal waste collection services in the UK, covering more than 2 million households. May Gurney works with local authorities to develop better waste collection strategies to extract the maximum value from recycled materials and reduce the amount of

waste going to landfill. May Gurney's core services include kerbside recycling (MaGOS™), refuse collections, street cleansing and the management of household waste recycling centres ("HWRCs").

The environmental services market was worth in the region of £3.1 billion per annum in 2011 (the year for which the most recent data is available), complemented by the street cleansing segment at approximately £900 million per annum, which is becoming increasingly integrated within collection contracts. May Gurney has estimated shares of 5 per cent. of the outsourced municipal collections segment and 9 per cent. of the HWRCs segment. Key market drivers are the increase in landfill tax and local authority recycling targets.

Fleet & Passenger Services

May Gurney is one of the UK's leading providers of end-to-end fleet management and passenger services to local authorities. May Gurney manages over 6,000 specialist vehicles across 100 locations and carries several thousand passengers a day (home to school, social services, demand response and corporate shuttle). The specialist vehicles May Gurney supplies and manages include waste and recycling trucks, snow-ploughs/gritters, street sweeping and cleaning vehicles and HGVs. TransLinc's operations have been integrated with May Gurney's existing plant and transport operations and renamed "Fleet & Passenger Services".

May Gurney is one of the UK's leading providers of outsourced fleet services to local authorities with an estimated share of 8 per cent. This sector was worth approximately £730 million per annum in 2010 (the year for which the most recent data is available) and remains highly fragmented. In the £3.0 billion local authority outsourced passenger services sector, May Gurney was number five in the UK in 2010 (the year for which the most recent data is available), with a 0.5 per cent. share. Outsourcing rates in this immature sector currently stand at 50 per cent. to 60 per cent., offering good opportunities for growth.

Facility services

In September 2012, May Gurney announced its intention to withdraw from the facility services market in which it built schools under long-term contracts for local authorities. May Gurney's Facility Services business is currently in the process of being wound down.

1.2 **Regulated sector services**

May Gurney's Regulated Sector Services division has operations covering three main areas: utility services, rail services and waterways services. The regulated services sector is worth approximately £10.6 billion per annum, with periodic spending reviews in the rail and water sectors securing significant increases in expenditure. The primary market drivers are twofold: ambitious targets for excellent customer service and the need for increased operational efficiencies.

Utility services

May Gurney delivers utility maintenance and asset enhancement services in water, gas, power and telecommunications across the UK. May Gurney's core services include clean and waste water improvements, asset and infrastructure maintenance, multi-utility services, mechanical and electrical ("M&E") design and maintenance, inspection and maintenance for bridges and masts and design.

Ofwat's Final Determinations for the AMP5 period (2010 to 2015) allows for average expenditure of £4.4 billion per annum across England and Wales, an increase of 32 per cent. on AMP4 levels, and there is a further £1.2 billion per annum in Scotland. There is a continued emphasis on capital maintenance, especially with the recent transfer of private drains and sewers ("PdaS") to the water companies. The gas distribution market is worth £1.8 billion per annum. The new regulatory period, RII0-GD1, starts in April 2013 and will be eight years long with Ofgem's focus on efficiency, safety, customer satisfaction and environmental issues.

Rail services

May Gurney operates in long-term partnership with its principal client, Network Rail, to deliver maintenance and refurbishment works on rail structures, rail property and in signalling. May Gurney is currently engaged in several key projects, including an element of the high-profile collaborative Network Rail project on the Great Northern/Great Eastern Joint Line between Peterborough and Doncaster. May Gurney is also working on the Major & Minor Works framework contract with BRB Residuary, which covers works north of the Humber and the Mersey, including Scotland.

Planned maintenance expenditure by Network Rail over Control Period 4 (2009 to 2014) is worth on average over £1 billion per annum. This is supplemented by enhancements expenditure, worth on average £1.5 billion per annum. Following the appointment of the new leadership of Network Rail, the release of the Value for Money Study by Sir Roy McNulty and the subsequent Command Paper, May Gurney continues to change to meet new demands. The industry drivers of increased collaboration, greater passenger influence and whole-life asset management play to its core strengths. May Gurney's rail capability will continue to evolve in this changing environment, founded on its core values and reputation.

Waterways services

May Gurney plays a key role in the regeneration, maintenance and renaissance of the UK's waterways network. May Gurney delivers maintenance services, including mechanical, civil and electrical engineering for Canal & River Trust (formerly British Waterways) across the national canal and river network infrastructure and is the Canal & River Trust's sole contractor. May Gurney also works closely with the Environment Agency in order to protect communities from coastal and river flooding by constructing and maintaining flood protection assets.

May Gurney delivers over £20 million of work per annum for Canal & River Trust (and its private partners). Total UK Government expenditure for flooding and coastal erosion management is budgeted at £2.45 billion for the four-year spending period which began in 2011.

2 Summary of May Gurney's Trading Results

A summary of the consolidated trading results and summary balance sheets of the May Gurney Group for HY2013 against HY2012 and for FY2012, FY2011 and FY2010, each of which has been extracted without material adjustment from the financial records of the May Gurney Group in respect of the relevant period, is set out below:

2.1 Consolidated trading results

The tables below show summary consolidated income statements for the May Gurney Group for HY2013 and HY2012 and also for FY2012, FY2011 and FY2010.

Condensed consolidated income statement

	6 months to 30 September			31 March			31 March		
	2012	2011	2012	2011	2011	2010	2011	2010	
	Continuing operations unaudited	Discontinued operations unaudited	Unaudited	Unaudited	Before non-recurring items and amortisation	Non-recurring items and amortisation	Before non-recurring items and amortisation	Non-recurring items and amortisation	Total
Group revenue	338.9	14.6	353.5	351.0	695.3	-	571.4	-	571.4
Cost of sales	(313.0)	(23.4)	(336.4)	(314.8)	(625.2)	-	(513.4)	-	(513.4)
Gross profit/(loss)	25.9	(8.8)	17.1	36.2	70.1	-	58.9	-	58.0
Administrative expenses	(13.3)	(1.2)	(14.5)	(21.2)	(40.0)	-	(32.9)	-	(32.9)
Group operating profit/(loss) before amortisation and other non-recurring costs	12.6	(10.0)	2.6	15.0	30.1	-	25.1	-	25.1
Other expenses:									
Intangible assets amortisation and impairment	(5.7)	-	(5.7)	(1.4)	-	(4.2)	-	(2.1)	(2.1)
Other non-recurring costs	-	-	-	-	-	(4.9)	-	(3.4)	(3.4)
Operating profit/(loss)	6.9	(10.0)	(3.1)	13.6	30.1	(9.1)	25.1	(3.2)	19.6
Finance income	0.1	-	0.1	0.2	0.3	-	0.4	-	0.4
Finance costs	(1.6)	-	(1.6)	(0.7)	(2.0)	-	(1.2)	-	(1.2)
Profit/(loss) before taxation	5.4	(10.0)	(4.6)	13.1	28.4	(9.1)	24.3	(3.2)	18.8
Taxation	(1.4)	2.4	1.0	(3.5)	(7.7)	2.2	(6.9)	0.9	(5.5)
Profit/(loss) for the period/year from continuing operations attributable to equity holders of the parent	4.0	(7.6)	(3.6)	9.6 ⁽¹⁾	20.7	(6.9)	17.4	(2.3)	13.3

Notes:

- (1) Profit of £0.2 million arising from discontinued operations for six months ended 30 September 2011.
- (2) Loss of £1.5 million arising from discontinued operations for 12 months to 31 March 2012.

First half underlying continuing operations revenues increased by 4 per cent. to £338.9 million (HY2011: £324.7 million).

Underlying continuing operations EBITA was £12.6 million (HY2012: £14.7 million) with an overall operating margin of 3.7 per cent. (HY2012: 4.5 per cent.). The margin was affected by four key factors: the poor weather over the summer that impacted May Gurney's surface dressing operations, a short-term downturn in rail services, provisions for Scotia Gas Networks ("SGN") reduction in outsourcing, and the poor performance of two MaGOS™ environmental services contracts.

The May Gurney Group has taken a £10 million charge for the closure of its Facility Services business. Of this, £2.0 million has been incurred at the half-year and, accordingly, the provision at 30 September 2012 was £8 million.

The May Gurney Group has continued to build upon its performance in HY2013. In HY2013, the May Gurney Group secured £314 million of work, including more than £164 million in new contracts, primarily from its Waterways and Fleet & Passenger Services operations, and a seven-year extension to its environmental services contract with the Somerset Waste Partnership ("SWP"), valued at £100 million. May Gurney's order book has been maintained at £1.5 billion, with a further £1.7 billion in potential contract extensions, and its bidding pipeline stands at approximately £4 billion. The integration of TransLinc has been completed and the business has been renamed "Fleet & Passenger Services". The operation continues to perform in line with May Gurney's expectations.

The May Gurney Group underlying profit before tax and amortisation was £1.1 million (HY2012: £14.5 million). The May Gurney Group had a net interest charge for the half-year of £1.5 million (HY2012 £0.5 million). The increase largely reflects interest charges on additional finance leased assets used within the business.

During FY2012, revenue grew by 22 per cent. to £695.3 million (FY2011: £571.4 million). Underlying EBITA increased by 20 per cent. to £30.1 million (FY2011: £25.1 million) representing an underlying EBITA margin of 4.3 per cent. (FY2011: 4.4 per cent.). The Public Sector Services Division increased revenues and EBITA by 11 per cent. and 3 per cent. respectively. Highways growth was driven by the new Surrey contract and additional pothole funding but offset by the West Sussex contract which ceased. Environmental Service growth was largely driven by the new contract with Bristol as well as year-on-year run rate growth in other areas such as Bridgend. TransLinc turned over £13 million in the period post-acquisition. The Regulated Sector Services Division delivered revenue and EBITA growth of 42 per cent. and 58 per cent. respectively. This growth resulted primarily from, the first full year of Turriff (post-acquisition), which contributed an additional £44 million year-on-year; repair and maintenance contracts with customers such as Severn Trent and Anglian Water achieved annualised run rates; and growth in May Gurney's presence in the mechanical & Electrical service delivery.

During FY2011, revenue grew by 18 per cent. to £571.4 million (FY2010: £483.1 million). Underlying EBITA increased by 14 per cent. to £25.1 million (FY2010: £22.1 million), representing an underlying EBITA margin of 4.4 per cent. (FY2010: 4.6 per cent.). The Public Sector Services Division increased revenues and EBITA by 33 per cent. and 18 per cent. respectively, due to significant Highways and Environmental Services contract wins in the prior year that were mobilised. The Regulated Sector Services Division revenues were broadly flat compared to the prior year, reflecting the transition between AMP 4 and AMP 5 investment periods by clients. The Regulated Sector Services Division delivered EBITA growth of 5 per cent., principally due to a strong performance in rail.

2.2 Summary balance sheets

The tables below show summary balance sheets for the May Gurney Group as at 30 September 2012 and 30 September 2011 and as at FY2012, FY2011 and FY2010.

	<i>30 September 2012 Unaudited</i>	<i>31 March 2012</i>	<i>30 September 2011 Unaudited (£m)</i>	<i>31 March 2011</i>	<i>31 March 2010</i>
Non-current assets					
Property, plant & equipment	112.2	92.4	40.2	39.2	25.7
Goodwill	60.3	60.3	42.1	42.1	35.2
Other intangible assets	13.7	18.8	10.2	11.4	5.6
Deferred tax asset	–	–	1.7	0.9	1.1
	<u>186.2</u>	<u>171.5</u>	<u>94.2</u>	<u>93.6</u>	<u>67.7</u>
Current assets					
Inventories	4.8	4.5	4.4	4.4	2.7
Trade and other receivables	119.7	112.2	134.1	110.4	81.4
Cash and cash equivalents	20.0	31.0	36.6	36.2	43.4
	<u>144.5</u>	<u>147.7</u>	<u>175.1</u>	<u>151.0</u>	<u>127.5</u>
Assets included in discontinued operation	2.2	–	–	–	–
Total assets	<u>332.9</u>	<u>319.2</u>	<u>269.3</u>	<u>244.6</u>	<u>195.1</u>
Current liabilities					
Trade and other payables	(135.7)	(141.2)	(152.4)	(132.7)	(105.2)
Current tax liabilities	(0.5)	(3.1)	(3.6)	(2.0)	(1.1)
Borrowings	(23.0)	(20.0)	–	–	–
Obligations under finance leases	(19.2)	(16.9)	(6.4)	(7.3)	(5.6)
	<u>(178.4)</u>	<u>(181.2)</u>	<u>(162.4)</u>	<u>(142.1)</u>	<u>(111.9)</u>
Liabilities included in discontinued operation	(14.0)	–	–	–	–
Non-current liabilities					
Retirement benefit obligations	(0.4)	(0.4)	(0.4)	(0.4)	(1.1)
Obligations under finance leases	(54.7)	(43.3)	(15.0)	(18.0)	(8.6)
Deferred tax liability	(1.4)	(1.7)	–	–	–
Provisions	0	–	–	(0.1)	(0.1)
	<u>(56.5)</u>	<u>(45.4)</u>	<u>(30.8)</u>	<u>(18.5)</u>	<u>(9.8)</u>
Total liabilities	<u>(248.9)</u>	<u>(226.6)</u>	<u>(177.8)</u>	<u>(160.5)</u>	<u>(121.7)</u>
Net assets	<u>84.0</u>	<u>92.6</u>	<u>91.5</u>	<u>84.1</u>	<u>73.4</u>
Equity					
Share capital	3.5	3.5	3.5	3.5	3.5
Share premium account	13.2	13.2	13.2	13.2	13.2
Merger relief reserve	1.9	1.9	1.9	1.9	1.9
Other reserves	1.4	1.4	1.4	1.4	1.4
Retained earnings	64.0	72.6	71.5	64.1	53.4
Total equity	<u>84.0</u>	<u>92.6</u>	<u>91.5</u>	<u>84.1</u>	<u>73.4</u>

The May Gurney Group's balance sheet remained strong at the half-year, with net assets of £84 million (FY2012: £92.6 million). The intangible assets of £2.9 million associated with SGN in Turriff have been written off in full. The May Gurney Group has concluded that no impairment is required for the goodwill which arose on the Turriff acquisition. Investment in fixed assets in the first half was £35 million, primarily in its Environmental Services business reflecting the mobilisation of new long-term contracts and in the Fleet & Passenger Services business. Investment in these assets is secured against long-term contract revenue streams and the assets are matched with appropriate finance leases.

The May Gurney Group's IAS 19 pension fund deficit was maintained at the half-year at £0.4 million (FY2012: £0.4 million). May Gurney's defined benefit pension scheme is closed to future accruals. The defined benefit pension scheme acquired with the TransLinc acquisition shows an IAS 19 accounting surplus of £2.9 million as at March 2012. This surplus has not been consolidated onto the May Gurney Group's balance sheet.

The May Gurney Group's cash generation remained strong, with cash generated in the half-year from continuing operations of £15.4 million (HY2012: £17.7 million), representing a conversion of more than 100 per cent. of EBITA. The May Gurney Group ended the half-year with gross cash of £20 million (31 March 2012: £31 million).

Short-term borrowings were £23.0 million, resulting in a net deficit (cash less short-term borrowings excluding finance lease obligations) of £3.0 million (31 March 2012 net cash: £11 million). The May Gurney Group has a revolving debt facility in place, until November 2014, of £33 million and it also has a £15 million overdraft facility.

As at 31 March 2012, May Gurney Group's net assets had increased to £92.6 million (31 March 2011: £84.1 million). Fixed assets had increased to £92.4 million, primarily due to the £47.6 million of assets acquired as part of the acquisition of TransLinc in November 2011. This acquisition also accounted for the growth in goodwill and intangible assets.

As at 31 March 2012, cash on the balance sheet stood at £31.0 million, which was offset by £20.0 million of short-term borrowings under a revolving credit facility (the latter having been used to help finance the TransLinc acquisition). This resulted in a "net" cash position of £11.0 million as at 31 March 2012.

As at 31 March 2011, May Gurney Group's net assets had increased to £84.1 million (31 March 2010: £73 million). Fixed assets had increased to £39.2 million due to investment in new vehicles for Environmental Services contracts and investment in IT (particularly May Gurney's operational IT platform, MGConnect™). The increase in goodwill and intangible assets was primarily as a result of the acquisition of Turriff in January 2011.

As at 31 March 2011, cash on the balance sheet stood at £36.2 million with no short-term borrowings, which resulted in a "net" cash position of £36.2 million (31 March 2010: £43.4 million). The business also utilises finance leases to fund vehicles and plant dedicated for use within client contracts. The obligation to repay the capital and interest related to this asset financing is matched within the contracts where the assets are utilised. As at 30 September 2012, the total outstanding obligations under finance leases were £74 million (31 March 2012: £60.2 million). At 31 March 2011, finance lease obligations totalled £25.3 million, compared with £14.2 million at the end of 31 March 2010.

2.3 Consolidated statements of changes in equity

The table below shows the changes in consolidated shareholders' equity for HY2013 and HY2012 and also for FY2012, FY2011 and FY2010.

Consolidated statement of changes in equity for the six months ended 30 September 2012 and 30 September 2011 (unaudited) and consolidated statement of changes in equity for Full Year Ended 31 March 2012, 2011 and 2010 (audited):

Condensed consolidated statement of changes in equity

	Share capital	Share premium account	Merger relief reserve	Other reserves	Retained earnings	Total equity
	(£m)					
Balance at 31 March and 1 April 2009	3.5	13.2	1.9	1.4	43.5	63.5
Profit for the period	–	–	–	–	6.1	6.1
Other comprehensive income:						
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	–
Tax on actuarial losses on defined benefit pension schemes	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	6.1	6.1
Proceeds from disposal of own shares	–	–	–	0.1	–	0.1
Share-based payments – income statement credit	–	–	–	–	1.1	1.1
Dividend paid	–	–	–	–	(2.3)	(2.3)
Balance at 30 September 2009	3.5	13.2	1.9	1.5	48.4	68.5
Profit for the period	–	–	–	–	7.0	7.0
Other comprehensive income:						
Actuarial losses on defined benefit pension schemes	–	–	–	–	(1.3)	(1.3)
Tax on actuarial losses on defined benefit pension schemes	–	–	–	–	0.4	0.4
Total comprehensive income for the period	–	–	–	–	6.1	6.1
Proceeds from disposal of own shares	–	–	–	–	–	–
Taxation on share sales	–	–	–	(0.1)	–	(0.1)
Share-based payments – income statement charge	–	–	–	–	(0.7)	(0.7)
Share-based payments – deferred tax relief on future exercise	–	–	–	–	0.8	0.8
Dividend paid	–	–	–	–	(1.2)	(1.2)
Balance at 31 March and 1 April 2010	3.5	13.2	1.9	1.4	53.4	73.4
Profit for the period	–	–	–	–	7.9	7.9
Other comprehensive income:						
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	–
Tax on actuarial losses on defined benefit pension schemes	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	7.9	7.9
Transactions with owners:						
Share-based payments – income statement charge	–	–	–	–	0.4	0.4
Share-based payments – deferred tax relief on future exercise	–	–	–	–	(0.1)	(0.1)
Dividends paid	–	–	–	–	(2.5)	(2.5)
Balance at 30 September 2010	3.5	13.2	1.9	1.4	59.1	79.1

	<i>Share capital</i>	<i>Share premium account</i>	<i>Merger relief reserve</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total equity</i>
Profit for the period	–	–	–	–	5.4	5.4
Other comprehensive income:						
Actuarial losses on defined benefit pension schemes	–	–	–	–	0.9	0.9
Tax on actuarial losses on defined benefit pension schemes	–	–	–	–	(0.2)	(0.2)
Total comprehensive income for the period	–	–	–	–	6.1	6.1
Transactions with owners:						
Share-based payments – income statement credit	–	–	–	–	(0.1)	(0.1)
Share-based payments – deferred tax relief on future exercise	–	–	–	–	0.4	0.4
Dividends paid	–	–	–	–	(1.4)	(1.4)
Balance at 31 March and 1 April 2011	3.5	13.2	1.9	1.4	64.1	84.1
Profit for the period	–	–	–	–	9.6	9.6
Total comprehensive income for the period	–	–	–	–	9.6	9.6
Transactions with owners:						
Share-based payments – income statement credit	–	–	–	–	0.4	0.4
Share-based payments – deferred tax relief on future exercise	–	–	–	–	0.4	0.4
Dividends paid	–	–	–	–	(3.0)	(3.0)
Balance at 30 September 2011 (unaudited)	3.5	13.2	1.9	1.4	71.5	91.5
Profit for the period	–	–	–	–	4.2	4.2
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	4.2	4.2
Transactions with owners:						
Share-based payments – income statement credit	–	–	–	–	(0.4)	(0.4)
Share-based payments – deferred tax relief on future exercise	–	–	–	–	(0.8)	(0.8)
Dividends paid	–	–	–	–	(1.9)	(1.9)
Balance at 31 March and 1 April 2012	3.5	13.2	1.9	1.4	72.6	92.6
Profit for the period	–	–	–	–	(3.6)	(3.6)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	(3.6)	(3.6)
Transactions with owners:						
Share-based payments – income statement credit	–	–	–	–	(0.3)	(0.3)
Share-based payments – deferred tax relief on future exercise	–	–	–	–	(0.9)	(0.9)
Dividends paid	–	–	–	–	(3.8)	(3.8)
Balance at 30 September 2012 (unaudited)	3.5	13.2	1.9	1.4	64.0	84.0

The total equity of the May Gurney Group has remained relatively stable over the last three years, reflecting profit generation and a progressive dividend policy over that period. The pension scheme deficit has also been stable at £0.4 million for the last two year ends.

3 Review of Operating Performance and Financial Review of Consolidated Results of Operations – Review of May Gurney Group Performance against Key Performance Indicators for FY2012, FY2011, FY2010, HY2013 and HY2012

May Gurney measures its business performance against seven key performance indicators (“KPIs”) at the end of each financial period. These KPIs are reviewed each month by the May Gurney Board against targets established at the beginning of the relevant financial period.

3.1 *Group profit margin*

Profitability of the May Gurney Group and of each delivery sector is a key measure of overall performance. May Gurney measures EBITA as a percentage of external turnover year-to-date, as a variance to the budget. The May Gurney Group’s target is budget or better.

	<i>FY2012</i>	<i>FY2011</i>	<i>FY2010</i>	<i>HY2013</i>	<i>HY2012</i>
	<i>(per cent.)</i>				
Key performance indicator					
Group Profit Margin	4.3	4.4	4.6	3.7	4.5

3.2 *Value of long-term public sector and regulated sector work*

May Gurney’s business strategy is focused on developing long-term client relationships. It measures the value of long-term public and regulated sector work as a percentage of its total revenues. May Gurney’s target is 90 per cent. or more.

	<i>FY2012</i>	<i>FY2011</i>	<i>FY2010</i>
	<i>(per cent.)</i>		
Key performance indicator			
Value of Long-term Public Sector and Regulated Sector Work	95	95	95

3.3 *Employee satisfaction*

May Gurney’s workforce is essential to the delivery of its services which means that its employees’ overall levels of satisfaction and engagement are a key factor in May Gurney’s ability to deliver a high standard of service for its clients. May Gurney measures employee satisfaction through an annual employee survey.

	<i>FY2012</i>	<i>FY2011</i>	<i>FY2010</i>
	<i>(per cent.)</i>		
Key performance indicator			
Employee Satisfaction	67	65	65

3.4 *Group net cash*

Cash collection and cash balances are key indicators of financial stability and performance.

	<i>FY2012</i>	<i>FY2011</i>	<i>FY2010</i>	<i>HY2013</i>	<i>HY2012</i>
	<i>(£m)</i>				
Key performance indicator					
Group Net Cash/Deficit ⁽¹⁾	11.0	36.2	43.3	(3.0)	36.6

Note:

Cash less borrowings excluding finance lease obligations.

The movement to a £3.0 million net debt position as at 30 September 2012 resulted from a high level of capital expenditure in the six months to this date, a significant proportion of which was not financed with finance leases.

3.5 *Group order book*

The order book measure is impacted by the full value of contract wins, losses and delays, reflects the deferral of some client procurement processes and provides May Gurney with a long-term perspective. It is measured as a variance to the business plan.

	<i>FY2012</i>	<i>FY2011</i>	<i>FY2010</i>	<i>HY2013</i>	<i>HY2012</i>
Key performance indicator					
Group Order Book	1.5	1.4	1.7	1.5	1.4

3.6 *Employee retention*

May Gurney's goal is to reduce employee turnover in order to maintain appropriate levels of competence, experience, service delivery, cultural alignment, teamwork and stability. It is calculated using the employee turnover figure less redundancies, TUPE, seasonal workers, fixed-term contracts, retirements and dismissals. May Gurney's target is 17 per cent. or less.

	<i>FY2012</i>	<i>FY2011</i>	<i>FY2010</i>		
Key performance indicator					
Employee Retention					

3.7 *Safety*

May Gurney's goal is to reduce accidents and injuries at work. It is measured using the Accident Frequency Rate ("AFR") defined by the Health and Safety Executive ("HSE") as the number of RIDDOR accidents in a 12-month period x 100,000, divided by the total hours worked in that same 12-month period. May Gurney's target is 0.43 or less.

	<i>FY2012</i>	<i>FY2011</i>	<i>FY2010</i>	<i>HY2013</i>	<i>HY2012</i>
Key performance indicator					
Safety	0.53	0.62	0.31	0.48	0.68

4 **Review of Operating Performance and Financial Review of Consolidated Results of Operations – Half Year Ended 30 September 2012 against Half Year Ended 30 September 2011**

4.1 *Public sector services division*

Highway services

May Gurney's new highways maintenance contracts with Surrey County Council and the London Borough of Harrow performed well operationally. However, the poor weather over the summer of 2012 impacted May Gurney's surface dressing operations.

Environmental services

Targeted margins on two of May Gurney's long-term MaGOS™ contracts were not achieved. May Gurney is taking stringent actions to drive operational efficiencies and profitability and is in close dialogue with its clients to bring these contracts back into line. These contracts represent 4 per cent. of HY2013 revenues and are spread over terms of seven to 14 years.

In September 2012, May Gurney announced that it had been awarded a seven-year contract extension with the Somerset Waste Partnership (SWP) for the ongoing provision of recycling and refuse collection services, valued at £100 million.

Fleet & Passenger services

The integration of TransLinc, acquired in November 2011, was completed and the operation was renamed "Fleet & Passenger Services". May Gurney is benefiting from the integration of TransLinc's operations with its existing plant and transport operations, specifically through the use of acquired

fleet management systems. The business is performing well and providing a positive contribution to May Gurney Group's earnings. In addition, in HY2013, May Gurney secured a new six-year contract with West Lancashire Borough Council for fully outsourced fleet management services valued at £4 million.

4.2 ***Regulated sector services division***

Utility services

A strong operational performance in England and Wales was driven by an increase in work from May Gurney's ability to deliver a wider range of different services to its clients, integrating these services to bring efficiencies and working closer with its clients to develop preventative maintenance programming in conjunction with reactive activities. In addition, May Gurney saw an uplift on its reactive clean and waste water contracts caused by the poor summer weather, and more work associated with the maintenance of private drains and sewers. This was offset by the issues with SGN in Scotland.

Rail services

There was a short-term downturn in May Gurney's rail services business due to restructuring within Network Rail Infrastructure Projects. This was specifically in small- to medium-sized capital projects, which is May Gurney's area of expertise in this market. May Gurney continued to work on several key projects, including an element of the high profile collaborative Network Rail project on the Great Northern/Great Eastern Joint Line between Peterborough and Doncaster.

May Gurney also started work on the Major & Minor Works framework contract with BRB Residuary, which covers works north of a line drawn between the Humber and the Mersey, including Scotland.

Waterways services

During HY2013, May Gurney secured a two-year extension to its Omnibus Contract with the Canal & River Trust, valued at up to £40 million.

In addition, May Gurney completed a flood defence scheme in the village of Braunton in North Devon on behalf of the Environment Agency and is currently working on the high-profile River Stert flood protection scheme in Somerset.

Facility services

The Facility Services business remained in the process of being wound down.

4.3 ***Financial review of consolidated results of operations***

(A) *May Gurney group analysis*

Overview

May Gurney delivered a performance in line with its revised expectations during HY2013. It generated revenues from continuing operations of £338.9 million (HY2012: £324.7 million) and underlying EBITA of £12.6 million (HY2012: £14.7 million), achieving an operating margin of 3.7 per cent. (HY2012: 4.5 per cent.) after bidding and mobilisation costs which, in line with May Gurney's prudent accounting policy, were written off as incurred.

May Gurney remained a cash generative business with cash generated from continuing operations of £15.4 million (HY2012: £17.7 million), representing more than 100 per cent. of underlying EBITA.

May Gurney continued to build upon its performance in HY2013. In HY2013, May Gurney secured £314 million of work, including more than £164 million in new contracts, primarily from its Waterways and Fleet & Passenger Services operations, and a seven-year extension to its environmental services contract with the SWP, valued at £100 million. May Gurney's order

book was maintained at £1.5 billion, with a further £1.7 billion in potential contract extensions, and its bidding pipeline stood at approximately £4 billion as at 30 September 2012.

The plans May Gurney put in place to address the three ring-fenced issues it highlighted on 6 September 2012 are on track. Specifically, May Gurney has significantly reduced those operations in Scotland supporting Scotia Gas Networks (“SGN”); is discontinuing its Facility Services business (a £10 million charge was taken in relation to the closure); and is continuing to work with clients on the two MaGOS™ environmental services contracts – these are complex contracts and May Gurney expects this process to continue well into 2013. In addition, an external review has been carried out on 13 of May Gurney’s key contracts, resulting in no major issues being found.

Revenues

HY2013 underlying revenues from continuing, which increased by 4 per cent. to £338.9 million (HY2012: £324.7 million), were impacted by bad weather during the summer of 2012 and the operational issues May Gurney highlighted in September 2012.

Margins

Underlying EBITA from continuing operations was £12.6 million (HY2012: £14.7 million) with an overall operating margin of 3.7 per cent. (HY2012: 4.5 per cent.).

The margin was affected by four key factors: the poor weather over the summer of 2012 that impacted May Gurney’s surface dressing operations, a short-term downturn in rail services, provisions for SGN’s reduction in outsourcing, and the poor performance of two MaGOS™ environmental services contracts. May Gurney continued prudently to write off bidding and contract mobilisation costs as they were incurred. As at 30 September 2012, no provision for future losses had been made in respect of the two MaGOS™ contracts referred to above and this will be reviewed again by the May Gurney Board at the year end.

Profit before tax

May Gurney’s underlying profit before tax was £1.1 million (HY2012: £14.5 million). May Gurney had a net interest charge for HY2013 of £1.5 million (HY2012: £0.5 million). The increase largely reflected interest charges on additional finance leased assets used within the business.

Earnings per share

Underlying earnings per share (“EPS”) was 11.82 pence (HY2012: 14.81 pence). Underlying EPS is calculated by adding back shares held by employee trusts to the weighted average number of shares and by excluding amortisation and non-recurring costs.

Cash

May Gurney’s cash generation remains strong, with cash generated in HY2013 from continuing operations of £15.4 million (HY2012: £17.7 million), representing a conversion of more than 100 per cent. of EBITA.

May Gurney ended HY2013 with gross cash of £20.0 million (31 March 2012: £31.0 million). Short-term borrowings were £23.0 million, resulting in a net debt of £3.0 million (31 March 2012 net cash: £11.0 million). May Gurney has a revolving debt facility in place until November 2014 of £33 million. May Gurney also has a £15 million overdraft facility.

The business also utilises finance leases to fund vehicles and plant dedicated for use within client contracts. The obligation to repay the capital and interest related to this asset financing is matched within the contracts where the assets are utilised. As at 30 September 2012, the total

outstanding obligations under finance leases were £74.0 million (31 March 2012: £60.2 million).

Balance sheet

May Gurney's balance sheet remained strong as at 30 September 2012, with net assets of £84.0 million (31 March 2012: £92.6 million). The intangible assets of £2.9 million associated with SGN in Turriff were written off in full. May Gurney has concluded that no impairment is required for the goodwill which arose on the Turriff acquisition.

Investment in fixed assets in HY2013 was £35.0 million, primarily in May Gurney's Environmental Services business reflecting the mobilisation of new long-term contracts and in the Fleet & Passenger Services business. Investment in these assets is secured against long-term contract revenue streams and the assets are matched with appropriate finance leases.

May Gurney's IAS 19 pension fund deficit has been maintained as at 30 September 2012 at £0.4 million (31 March 2012: £0.4 million). The May Gurney defined benefit pension scheme is closed to future accruals. The defined benefit pension scheme acquired with the TransLinc acquisition showed an IAS 19 accounting surplus of £2.9 million as at 31 March 2012. This surplus has not been consolidated onto the May Gurney Group's balance sheet.

Dividends

May Gurney declared an interim dividend of 2.79 pence per share, reflecting its confidence in the May Gurney Group's continued cash generation and future prospects. The dividend was paid on 7 January 2013.

Provision for discontinued activities

May Gurney has taken a £10 million charge for the closure of its Facility Services business. Of this, £2.0 million had been incurred as at 30 September 2012 and, accordingly, the provision at 30 September 2012 was £8 million.

(B) *Segmental analysis*

Revenues

The Public Sector Services division generated 58 per cent. of May Gurney's revenues (HY2012: 62 per cent.) and the Regulated Sector Services division contributed 42 per cent. (HY2012: 38 per cent.).

Margins

The Public Sector Services underlying EBITA margin was 4.3 per cent. (HY2012: 5.1 per cent.) and the Regulated Sector Services underlying EBITA margin was 3.0 per cent. (HY2012: 3.7 per cent.), assisted by a strong operational performance from the Mechanical & Electrical ("M&E") and Repair & Maintenance ("R&M") activities in England, a good performance on May Gurney's contracts with the Canal & River Trust (formerly British Waterways), and public sector services also benefited from the acquisition of TransLinc.

5 Review of Operating Performance and Financial Review of Consolidated Results of Operations – Full Year Ended 30 March 2012 against Full Year Ended 30 March 2011

5.1 Public sector services division

Highway services

Highway Services delivered a good performance during the year, underpinned by its essential maintenance-based income streams, primarily driven by an increase in highways maintenance on the back of extra Government funding, a higher than anticipated additional spend by local authority clients and May Gurney's clients' need to maintain existing assets due to reduced availability of capital.

May Gurney successfully completed the mobilisation of its new highways maintenance contracts with Surrey County Council, which have a combined value of up to £93 million over a six-year period (plus a possible four-year extension). East Sussex County Council awarded an extension to its contract with May Gurney for a further three years, to August 2015, valued at up to £60 million. The contract was remodelled, using new technology and working practices, to provide further cost savings and boost efficiency.

Also during the year, May Gurney was awarded Harrow Council's highways maintenance contract, valued at up to £50 million. Starting in April 2012, the initial contract period is for five years with an option to extend for a further two years. The contract was awarded in three "bundled services" lots and includes maintenance of the council's key infrastructure assets – highways, carriageways, footways, streetlights, gullies and watercourses. As part of the contract, May Gurney is also undertaking maintenance of highways infrastructure assets belonging to London Underground and Overground, as well as watercourses belonging to the Environment Agency.

In Lincolnshire, May Gurney carried out a range of trials to help improve the efficiency and effectiveness of network repairs. In addition, May Gurney's established Lincolnshire highways operations supported a highways improvement scheme being delivered under the Lincolnshire Major Projects Framework, helping to create employment and business opportunities through improving access to Teal Business Park. The scheme also covers improvements to the A46.

May Gurney's specialist street lighting business, Cartledge, was awarded a new long-term maintenance contract by its existing long-term client, Torbay Borough Council. The contract with Torbay Borough Council started on 1 April 2012 and is for an initial period of five years with a possible three-year extension. It covers 17,000 street lighting units and is valued at between £4 million and £5 million.

During the year, May Gurney de-mobilised its contracts with Essex County Council and West Sussex County Council. The effect of this was largely offset by increased activity in other areas, specifically, in Lincolnshire, Surrey and Harrow.

Environmental services

May Gurney's senior management and operational teams moved swiftly to address the operational challenges on some of its newly-won contracts with plans put in place to address the issues identified. As with other long-term contracts, mobilisation costs are written off as incurred and the impact of this, together with the fact that May Gurney continues to implement transformational service change, means that margins should improve as contracts mature.

In September 2011, May Gurney secured Cheshire West & Chester Council's new waste and recycling contract, which is valued at up to £126 million for a 14-year period, with the potential for an extension of a further seven years.

May Gurney's contract for Bristol City Council's waste collection, street cleansing and winter maintenance contract, valued at around £96 million over seven years, with a potential seven-year extension, has now been fully rolled out. The new service is expected to save the council around £2.5 million a year and help contribute towards the council's goal of sending zero untreated waste to landfill within three years.

Fleet & passenger services

In November 2011, May Gurney acquired the TransLinc group of companies, the UK's largest specialist fleet provider to local authorities. The acquisition of TransLinc gave May Gurney entry into the passenger services market, with a client base of both local authorities and Primary Care Trusts. During the year, May Gurney continued to integrate TransLinc and also secured three significant contract extensions with a combined value of £8 million with Solutions SK, Trafford and Rotherham. Since the year end, May Gurney has secured a new six-year contract with West Lancashire Borough Council for fully outsourced fleet management services valued at £4 million.

Facility services

The performance within the Facility Services business, which in FY2012 represented £46.6 million (7 per cent.) of the May Gurney Group's turnover, proved disappointing. The business suffered certain supplier issues and steps were, and continue to be, taken to rectify this. This is a non-core activity and May Gurney is closing the business after fulfilling its existing client obligations with the Smarte East framework, North Lincolnshire Council and the London Borough of Lambeth.

5.2 Regulated sector services division

Utility services

May Gurney continued to see excellent performance from its core water network and M&E teams, driven by the shift towards ongoing R&M activities.

The first half of FY2012 saw an increased workflow from AMP5 contracts and the successful mobilisation of the Sewerage Services East Region maintenance contract for Severn Trent Water.

The integration of Turriff was completed, consolidating May Gurney's position in water and gaining it entry to the UK's gas sector and Scotland's support services market. May Gurney also completed the mobilisation of the Scottish Water contract and, in England, undertook work for Southern Gas Networks, leveraging the resources of its utility services and highway services teams.

Also in the year, May Gurney successfully completed a high-profile gas mains replacement project in the heart of Edinburgh. The project was part of Scotia Gas Networks' replacement programme to replace all metallic gas pipes within 30 metres of property over 30 years. The project team utilised specialist equipment and techniques (provided by May Gurney's underground moling services) including suction excavators, horizontal directional drilling and under-pressure drilling.

May Gurney undertook work under its first gas contract in England, for Southern Gas Networks. Working in East Sussex, May Gurney was able to leverage its existing highways presence in the county to ensure better use of resources and more effective delivery on the ground.

The May Gurney Group also became increasingly involved in the development of hydro-power generation for its clients in the water sector, where there are significant targets for generating renewable electricity. It designed and installed hydro-generation turbines at five South West Water sites and is currently looking at additional sites. These were the first of many hydro-generation sites which will be released for tendering by UK water utility companies.

Also during the year, May Gurney was one of two framework partners delivering civil and MEICA (mechanical, electrical, instrumentation, control and automation) works for the £180 million Water Supply Grid, the largest project Wessex Water has ever undertaken. The reservoir will provide additional storage to allow for effective maintenance of Wessex Water's existing assets without risk to supply and will support the operation of the new Grid Network.

In addition, May Gurney was appointed to Welsh Water's (Dŵr Cymru's) £170 million major civil engineering framework. The contract started on 1 February 2012 and is for a period of four years with the option to extend annually for a further two years. A number of outsourcing partners are included within the framework, with work awarded subject to mini-tender processes amongst the framework participants. The work will comprise civil engineering works, maintenance, improvement and design services across Welsh Water's clean water and waste water assets.

Rail services

May Gurney's long-term commitment to the Rail Industry is delivered through zero-value frameworks: Network Rail (NR) Building and Civil Delivery Partnerships; NR Type C Signalling Framework; Nexus Frameworks; and the British Railways Board (BRB) Frameworks. By forecasting changes in the client, May Gurney has successfully developed a competitive tendering capability and won several key projects, including an element of the high-profile collaborative Network Rail project on the GN/GE (Great Northern/Great Eastern) Joint Line between Peterborough and Doncaster.

During the year, the refurbishment and replacement of the roof at Victoria Station in central London was completed. In addition, May Gurney successfully completed a project to provide step-free access to all platforms at Haymarket Station, Scotland's third busiest railway station and the refurbishment of the Arnside Viaduct, a 52-span viaduct that was replaced in half the time of an identical project five years ago.

May Gurney also started work under a new £6.5 million contract to replace 12 rail bridges located in the LNE region between Peterborough and Doncaster, on behalf of Network Rail, due for completion by the end of 2013. There is also the possibility of a number of additional structures being added to the contract.

Working on behalf of Network Rail, May Gurney completed a major scheme of works to extend the life of the existing structural steel platform canopies at Finsbury Park station in North London. Finsbury Park is a major interchange with the London Underground and has an annual footfall in excess of two million people, with thousands of passengers passing through at peak times. The station remained fully operational throughout the works. The £3 million project, which started in January 2011, comprised the renewal of all existing canopy cladding systems, including waterproofing, drainage and lighting.

May Gurney was also awarded a new framework contract to maintain redundant structures across the rail network in northern England and Scotland. The Major & Minor Works contract was awarded by BRB Residuary Ltd, which is Government-owned and falls under the jurisdiction of the Department for Transport. The framework is for a three-year period starting from April 2012, and is likely to be worth in the region of £3 million per annum. It covers all works north of a line drawn between the Humber and the Mersey, including Scotland.

At the end of FY2012, May Gurney was mid-way through a £4.1 million project to refurbish one of the busiest stations on the Tyne & Wear Metro. It was appointed to the three-year Surface Stations' Refurbishment Framework in 2010, by Nexus, the Tyne and Wear Passenger Transport Executive. The current project involves the demolition and rebuilding of North Shields Metro Station, an important interchange providing bus, ferry and taxi links to other parts of the region. It is the sixth busiest commuter station in the north east, with more than two million people passing through every year.

Waterways services

During FY2012, May Gurney was awarded the MEICA framework for the northern and southern regions of England and Wales by the Canal & River Trust (formerly British Waterways). This new contract was in addition to the May Gurney Group's existing £25 million per annum Omnibus contract with the same client. The framework, which started on 1 April 2012, will run for three years and is worth approximately £1 million per annum. It covers the maintenance, repair and emergency repair of MEICA equipment on mechanised and manually operated assets located throughout the British Waterways network. These are typically powered or manually operated bridges and locks, although a number of bespoke assets and overhead cranes are included.

Since the end of FY2012, May Gurney has secured a two-year extension to its Omnibus contract with the Canal & River Trust, valued at up to £40 million.

Working on behalf of the Environment Agency, May Gurney successfully completed a £1.9 million refurbishment project at Kier's Lynn in Norfolk. The "Tail Sluice" project started in April 2009 and ran for three years during non-flooding times. The works, carried out in three annual phases,

comprised refurbishment of a major tidal sluice structure. All three phases were completed on budget and years two and three were completed ahead of programme.

5.3 **Financial review of consolidated results of operations**

(A) *May Gurney Group analysis*

Overview

Total revenues grew by 22 per cent. to £695.3 million (FY2011: £571.4 million), with EBITA up 20 per cent. to £30.1 million (FY2011: £25.1 million) and underlying earnings per share (EPS) increasing by 19 per cent. to 29.47 pence (FY2011: 24.77 pence). Adjusting for the acquisition of TransLinc in November 2011, underlying revenue and EBITA increased year-on-year by 19 per cent. and 12 per cent., respectively.

The May Gurney Group continued its track record of delivering solid cash generation, with £42.4 million of cash generated from operations, equivalent to more than 100 per cent. of EBITA. The May Gurney Group ended FY2012 with gross cash of £31.0 million (FY2011: £36.2 million), short-term debt of £20.0 million (FY2011: £nil) and contract-backed finance leases of £60.2 million (FY2011: £25.3 million). As at 30 March 2012, the May Gurney Group had no long-term debt.

FY2012 saw substantial bid levels across the May Gurney Group and it increased the order book to £1.5 billion (including framework agreements) with potential contract extensions of a further £1.1 billion.

The May Gurney Group continued to enjoy long-term revenue visibility, with 76 per cent. of consensus FY2013 revenues covered by the order book. This fell from 90 per cent. at the same time in FY2011, reflecting Network Rail's change in procurement policy to mini-bids and the growth of M&E zero-value frameworks.

The May Gurney Group recommended a final dividend for the year of 5.63 pence per share, resulting in a total for the year of 8.42 pence per share, up 28 per cent. compared to FY2011.

Revenues

Details of how the May Gurney Group recognises revenues in its consolidated financial statements can be found on page 102 of this Part VI.

The May Gurney Group's revenue for FY2012 was £695.3 million (FY2011: £571.4 million), an increase of 22 per cent. Revenue before the inclusion of the acquired TransLinc revenues was £681.7 million, giving an underlying increase of 19 per cent.

This growth was primarily driven by the full-year effect of the acquisition of Turriff (completed in January 2011); strong performances in May Gurney's long-term utility contracts, notably in M&E and R&M activities; the ramp-up of new Environmental Services contracts; and increased local authority highways maintenance.

Margins

EBITA increased by 20 per cent. to £30.1 million (FY2011: £25.1 million) at a margin of 4.3 per cent. (FY2011: 4.4 per cent.). EBITA before the inclusion of TransLinc was £28 million, an underlying increase of 12 per cent. and a margin of 4.0 per cent.

The margin was affected in FY2012 by the newly won Environmental Services contracts taking longer to reach their expected margins, a disappointing performance from Facility Services and a small number of underperforming contracts in Scotland (which have been discontinued).

May Gurney maintained its level of spend on bidding and contract mobilisations and continues to write off these costs as they were incurred.

Profit before tax

Underlying profit before tax rose by 17 per cent. to £28.4 million (FY2011: £24.3 million). Underlying profit before tax and before the inclusion of TransLinc was £26.7 million.

The May Gurney Group had a net interest charge for the year of £1.7 million (FY2011: £0.8 million), primarily representing the cost of borrowings to complete the TransLinc acquisition and interest charges on additional finance leased assets used within the business.

Profit before tax for the year increased by 3 per cent. to £19.3 million (FY2011: £18.8 million).

Earnings per share

Underlying EPS increased by 19 per cent. to 29.47 pence (FY2011: 24.77 pence). Underlying EPS is calculated by adding back shares held by employee trusts to the weighted average number of shares and by excluding amortisation and non-recurring costs.

Cash

May Gurney's cash generation remained strong in FY2012 with cash generated in the year from operations of £42.4 million (FY2011: £28.6 million), representing a conversion of more than 100 per cent. of EBITA.

May Gurney ended the year with gross cash of £31.0 million (FY2011: £36.2 million) after funding the acquisition of TransLinc. Set against this was short-term debt of £20 million, giving a net cash balance of £11.0 million (FY2011: £36.2 million).

In FY2012, the business also employed finance leases to fund vehicles and plant dedicated for use within client contracts. The cost of funding these finance leases was factored into May Gurney's tenders and, as such, May Gurney did not carry significant asset risk. As at 31 March 2012, the total outstanding obligations under finance leases were £60.2 million, of which £28.3 million related to assets within the acquired TransLinc business.

Balance sheet

May Gurney's balance sheet remained strong at the year end, with net assets of £93 million (FY2011: £84 million). At the year end, May Gurney had short-term borrowings of £20 million, which were used to part-fund the acquisition of TransLinc.

Investment in fixed assets in the year was £22.8 million, primarily in May Gurney's Environmental Services business on the back of the implementation of new long-term contracts. Investment in these assets was secured against long-term contract revenue streams and the assets were matched with appropriate finance leases.

At the time of the TransLinc acquisition, May Gurney increased its debt facilities to provide additional headroom and flexibility. In line with its strategy, May Gurney had no long-term debt.

May Gurney's IAS 19 pension fund deficit was maintained at £0.4 million at 31 March 2012 (31 March 2011: £0.4 million). A full (triennial) actuarial valuation as at 31 March 2011 was completed. The defined benefit pension scheme acquired with the TransLinc acquisition showed an IAS 19 accounting surplus of £2.9 million as at March 2012. This surplus was not consolidated onto the May Gurney Group's balance sheet.

Dividends

May Gurney's progressive dividend policy, adopted in 2010, was maintained in FY2012 and a final dividend of 5.63 pence per share (FY2011: 4.52 pence per share) was paid. This brought the total dividend for the year to 8.42 pence (FY2011: 6.60 pence), up 28 per cent. on FY2011.

Exceptional costs

In FY2012, £4.9 million of exceptional costs were incurred. This included the £2.9 million invested in reorganising May Gurney's business into two public-facing divisions (Public Sector Services and Regulated Sector Services), largely comprising redundancy and termination costs. At the year end, £1.5 million of this had been paid in cash. The majority of the benefit derived from this was reinvested in the business. A further £2 million in exceptional costs was expensed for fees and integration costs associated with the TransLinc acquisition.

(B) *Segmental analysis*

Revenues

Public Sector Services generated 60 per cent. of May Gurney Group revenues and 59 per cent. of EBITA in FY2012 (FY2011: 66 per cent. of revenues and 69 per cent. of EBITA). Revenues increased to £418.2 million (FY2011: £376.3 million), representing growth of 11.1 per cent.

The Regulated Sector Services division generated 40 per cent. of May Gurney Group revenues and 41 per cent. of EBITA in FY2012 (FY2011: 34 per cent. of revenues and 31 per cent. of EBITA). Divisional revenues increased by 42 per cent. to £277.1 million (FY2011: £195.1 million).

Margins

Public Sector Services EBITA stood at £17.8 million (FY2011: £17.3 million) with EBITA margin at 4.3 per cent. (FY2011: 4.6 per cent.), the reduction being due to the high level of bidding and mobilisation costs incurred in the year, a higher proportion of new contracts and the challenges on Environmental Services contracts. Public Sector Services also included the Facility Services business activity, which is no longer core to May Gurney, and where the financial performance was disappointing.

The Regulated Sector Services division delivered a 58 per cent. increase in EBITA to £12.3 million (FY2011: £7.8 million) with Regulated Sector Services EBITA margin at 4.4 per cent. (FY2011: 4.0 per cent.) due to a strong operational performance, particularly in M&E and R&M activities, which was slightly offset by a small number of under-performing contracts in Scotland which have been discontinued.

6 Review of Operating Performance and Financial Review of Consolidated Results of Operations – Full Year Ended 31 March 2011 against Full Year Ended 31 March 2010

6.1 *Public sector services division*

Highway services

Highway Services delivered a strong performance during the year, underpinned by essential maintenance-based income streams, such as highways drainage, winter maintenance and street lighting. May Gurney was also engaged in significant bidding activity.

The first half of the year saw a stronger performance than previous periods due to the positive impact of good early summer weather and a severe winter. In addition, the second half was better than expected due to extra Government funding for pothole repairs and clients continuing to spend at existing levels ahead of the impact of the comprehensive spending review.

Mobilisation of new highways maintenance contracts with Surrey County Council, with a combined value of up to £93 million over a six-year period (plus a possible four-year extension), progressed to plan with related costs written off as they occurred, in line with May Gurney's accounting policy. The contract includes highways maintenance, winter maintenance, the upkeep of bridges, road resurfacing works, drainage and the establishment of an automated asset management system. The deployment of MGConnect™ is a key feature of this contract.

The Surrey and East Sussex contracts will also see May Gurney working with other local authorities across the south east to identify economies of scale that can be achieved through joint purchasing or

sharing of facilities, with the aim of delivering additional savings through the SE7 consortia of local authorities.

May Gurney's existing contract with Norfolk County Council was extended by 18 months, with a value of up to £50 million, achieving its maximum extension term until April 2014. The long-term contract (known as the Norfolk Strategic Partnership, which started in 2004) includes a complex range of services including programme management, highway operations, infrastructure maintenance and new schemes. There is also scope within the arrangement for the potential transfer of additional work to May Gurney.

Northamptonshire Highways continued to operate at the forefront of service innovation. This contract is outcome driven, where the client gives May Gurney the responsibility for designing, developing and implementing service delivery for residents. Specifically, May Gurney introduced a centralised "Control Hub" which co-ordinates all highways works for Northamptonshire County Council, including utilities, resulting in better use of resources, increased efficiencies and improved delivery of services on the front-line.

In addition, the London Borough of Waltham Forest awarded a three-year contract extension to Cartledge to maintain 19,000 units, with a value of up to £3 million. Earlier in the year, the London Borough of Bromley awarded Cartledge a new ten-year extension to its street lighting contract, with a value of up to £21 million. The contract covers replacement works to 12,000 street lamps in the Borough of Bromley. May Gurney was also awarded a long-term street contract with Medway Council, valued at up to £5 million.

Also during the year, the mobilisation of May Gurney's long-term bundled services contract with Torbay Borough Council was completed. This included the introduction of new waste and recycling services to Torbay's 60,000 households, aiming to deliver potential cost savings to the Council of more than £14 million over the lifetime of the contract. Since the service introduction in September 2010 to the end of FY2011, there was a 44 per cent. increase in recycling rates. Other front-line services delivered included the maintenance of highways, grounds, parks, car parks, buildings and the Council's vehicle fleet, street and beach cleansing and out of hours call centre support.

Environmental services

May Gurney mobilised five long-term contracts in FY2011 and engaged in significant new business bidding activity.

During the year, in addition to Torbay, May Gurney mobilised long-term contracts with North Somerset Council, Bridgend County Borough Council, the Somerset Waste Partnership and West Oxfordshire District Council. By deploying MaGOS™, it achieved good recycling rates, helping its clients to meet their carbon reduction and recycling targets.

In addition, May Gurney mobilised the £75 million 14-year contract for Bridgend County Borough Council, which includes recycling, food and refuse collections and the management of the Council's HWRCs. Just six months into the new MaGOS™ service, which began in June 2010, the Council was named as the most improved area in Wales for recycling.

May Gurney also mobilised a contract with North Yorkshire County Council for its 17 HWRCs, valued at up to £24 million over seven years (with a possible extension of a further three years).

6.2 *Regulated sector services division*

Utility services

During FY2011, May Gurney saw a solid performance from its core water network and M&E teams, driven by a shift towards ongoing repair and maintenance activities. The AMP5 re-bidding process, which was ongoing throughout the year, consolidated May Gurney's position in the water market. The AMP5 bidding process was slower than expected as May Gurney's water clients continued to assess the implications of Ofwat's Final Determinations regarding efficiency and customer service targets.

May Gurney secured new contracts and extensions during the year with a combined value of £155 million and incorporating a 41 per cent. growth in ongoing repair and maintenance activities.

These included two new contracts with Essex & Suffolk Water (Northumbrian Water), covering water mains (worth up to £30 million over 33 months plus possible extensions of two and five years) and design and build (worth up to £8 million over four years, plus possible extensions of four and two years) and a new contract with Bristol Water (worth up to £12 million over four years to March 2015).

May Gurney was also awarded the Sewerage Services East Region maintenance contract by Severn Trent Water. The contract is valued at up to £62 million over five years with an option to extend for a further five years.

Beginning in March 2011, May Gurney's contracts on Anglian Water's Programme Partner Civil and MEICA cover the whole Anglian Water region and will run for an initial period of three years. With an anticipated combined value of £20 million, the contracts include activities associated with asset upgrade and the maintenance and enhancement of water treatment and waste water treatment facilities.

During FY2011, May Gurney also expanded its long-term relationship with South West Water to be the sole contractor for developer services, mains laying and water rehabilitation. The initial contract period of four years is valued at up to £23 million, with a possible extension of a further six years.

In January 2011, May Gurney acquired the Turriff Group, one of Scotland's largest utility infrastructure maintenance companies, for a cash consideration of up to £13.6 million. The acquisition strengthened May Gurney's position in the utilities maintenance sector.

Rail services

May Gurney's long-term structures and property frameworks with Network Rail performed well throughout FY2011, particularly during the first half. This was largely the result of the accelerated delivery of programmes due to the shift away from "frameworks" towards a "tendering" purchasing strategy.

The refurbishment and replacement of the roof at Victoria Station in central London, London's busiest, with more than 385,000 customers each day, was due for completion in the summer of 2011.

May Gurney was also successful in securing Network Rail's new combined BCDP contract to deliver property and structures maintenance services in Scotland and North East England. The BCDP has a term of three years with a year-on-year extension provision of a further two years.

Waterways services

May Gurney's long-term framework contract with British Waterways for the maintenance and improvement of the national canal and river network continued to perform well in FY2011. Several high-profile maintenance programmes were also completed during the year, including the upgrading and restoration of City Mill Lock at the Olympic Park in Stratford, the restoration of the sea gates and pier at Sharpness North, the restoration of the embankment and towpath at Purton in Gloucestershire and the restoration of bridge 71 near Knowle in Warwickshire and Hicklin bridge in South Derbyshire.

6.3 *Financial review of consolidated results of operations*

(A) *May Gurney Group analysis*

Overview

Revenues for FY2011 grew by 18 per cent. to £571.4 million (FY2010: £483.1 million), with EBITA up 14 per cent. to £25.1 million (FY2010: £22.1 million) and underlying earnings per share increasing by 13 per cent. to 24.77 pence. May Gurney continued its track record of delivering strong cash generation, with £28.6 million of cash generated from operations, and May Gurney ended the year with net cash of £10.9 million (FY2010: £29.2 million) after funding the initial payment for the acquisition of Turriff in January 2011.

FY2011 saw substantial bid levels across the May Gurney Group with significant activity in both the public and regulated sectors. AMP5 bids within the Utilities Sector continued for most of the year and Network Rail changed its approach away from framework contracts towards tendered awards. Success in bidding maintained the May Gurney Group's order book at £1.4 billion (including framework agreements, but excluding extensions).

May Gurney acted swiftly to scale back its non-core operations and, in line with its stated strategy, May Gurney completed the closure of its geotechnical and piling businesses, resulting in a non-recurring cost of £1.9 million in FY2011. This move further enhanced May Gurney's focus on more resilient service streams through long-term and stable relationships in the public and regulated sectors.

The continued strong performance of the May Gurney Group enabled the May Gurney Board to continue its progressive dividend policy and to pay a final dividend for the year of 4.52 pence per share, resulting in a total dividend for the year of 6.6 pence per share, up 20 per cent. compared to FY2010.

Revenues

The May Gurney Group's revenue for FY2011 was £571.4 million (FY2010: £483.1 million), an increase of 18 per cent. Revenue before the inclusion of acquired Turriff revenues was £562.4 million, giving an organic growth increase of 16 per cent.

This organic growth was primarily driven by the Public Sector business, with growth in all three service sectors reflecting success in winning contracts in the previous year. Utilities revenues performed well in FY2011 given the transition between AMP4 and AMP5 and the extended bidding process.

Margins

EBITA increased in FY2011 by 14 per cent. to £25.1 million (FY2010: £22.1 million), a margin of 4.4 per cent. (FY2010: 4.6 per cent.). EBITA before the inclusion of Turriff was £24.6 million.

Public Sector EBITA margin was 4.6 per cent. (FY2010: 5.2 per cent.), the reduction being due to the high level of bidding and mobilisation costs incurred in the year and a higher proportion of new contracts. Regulated Sector EBITA margin was 4.0 per cent. (FY2010: 3.7 per cent.) due to strong operational performance from the business across all services.

Profit before tax

Underlying profit before tax in FY2011 rose by 13 per cent. to £24.3 million (FY2010: £21.6 million). Underlying profit before tax before the inclusion of Turriff was £23.9 million.

The May Gurney Group had a net interest charge for the year of £0.8 million (FY2010: £0.5 million), with the interest cost of finance leased assets used within the business outweighing the low interest received on May Gurney's cash balances.

Profit before tax for the year increased by 2 per cent. to £18.8 million (FY2010: £18.4 million).

Earnings per share

Underlying EPS increased by 13 per cent. in FY2011 to 24.77 pence (FY2010: 21.92 pence). Underlying EPS is calculated by adding back shares held by employee trusts to the weighted average number of shares and by excluding amortisation and non-recurring costs.

Cash

The May Gurney Group's cash generation remained strong in FY2011 with cash generated in the year from operations of £28.6 million (FY2010: £30.7 million), representing a conversion

of more than 100 per cent. of EBITA. The lower generation compared to the prior year was due to the greater number of contract starts driving a working capital outflow, together with the acquired Turriff business having an expected lower cash generation profile than May Gurney.

The May Gurney Group ended FY2011 with gross cash of £36.2 million (FY2010: £43.4 million) after funding the acquisition of Turriff and its debt.

Net cash (cash less finance lease obligations) at the year end stood at £10.9 million (FY2010: £29.2 million). The cost of funding these finance leases was factored into May Gurney's tenders and, as such, May Gurney did not carry significant asset risk.

Balance sheet

The May Gurney Group's balance sheet remained strong at 31 March 2011, enabling May Gurney to acquire Turriff in the year from its own cash resources.

Investment in fixed assets in the year continued to grow, primarily in May Gurney's Environmental Services business, on the back of the implementation of new contracts. Investment in these assets was secured against long-term contract revenue streams that provide confidence in the repayment of the obligation.

The May Gurney Group also continued to invest in its operational IS platform, MGConnect™, in FY2011.

The May Gurney Group's IAS 19 pension fund deficit improved in FY2011 by £0.7 million to £0.4 million at 31 March 2011 (31 March 2010: £1.1 million). The funding position improved principally due to the impact of lower bond yields and lower inflation assumptions.

Dividends

The May Gurney Group adopted a more progressive dividend policy at the half-year, moving from four times cover of underlying earnings to 3.75 times cover. Following the continued performance of the business in the second half of the year, a final dividend of 4.52 pence per share (FY2010: 3.7 pence per share) was paid on 11 July 2011.

Exceptional costs

May Gurney's shared service approach to finance, plant and transport and procurement services continued to yield benefits in FY2011 as it leveraged these functions to support the growth in the May Gurney Group without incurring a significant rise in headcount.

May Gurney's investment in MGConnect™ continued in the year and it successfully deployed the technology and methodology on its contract wins within the Highways and Utilities businesses. This enabled more efficient delivery of services to May Gurney's clients through improved planning, management of resources and client reporting.

Lastly, the May Gurney Group continued its investment in embedding business improvement principles to drive the development of more efficient processes of working. This work focused both on client and May Gurney Group processes.

(B) *Segmental analysis*

Revenues

Public Sector Services generated 66 per cent. of May Gurney's revenues and 69 per cent. of EBITA in FY2011 (FY2010: 59 per cent. of revenues and 67 per cent. of EBITA). Revenues increased to £376.3 million (FY2010: £283.7 million), representing growth of 32.6 per cent., driven by a strong performance across all areas.

The Regulated Sector Services segment generated 34 per cent. of May Gurney's revenues and 31 per cent. of EBITA in FY2011 (FY2010: 41 per cent. of revenues and 33 per cent. of

EBITA), although segmental revenues remained broadly flat at £195.1 million (FY2010: £199.4 million).

Margins

Public Sector Services EBITA grew by 17.7 per cent. to £17.3 million (FY2010: £14.7 million) with margins at 4.6 per cent. (FY2010: 5.2 per cent.) due to higher bidding and mobilisation costs and a higher proportion of new contracts. In FY2011, May Gurney's Public Sector Services segment included Highway Services, Environmental Services and Facility Services.

A strong operational performance in the Regulated Sector Services division delivered a 5.4 per cent. increase in EBITA to £7.8 million (FY2010: £7.4 million), with margins increased to 4.0 per cent. (FY2010: 3.7 per cent.).

7 Shareholders' equity

The total equity of the May Gurney Group has remained relatively stable over the last three years, reflecting profit generation and a progressive dividend policy over that period. The pension scheme deficit has also been stable at £0.4 million for the last two year ends.

8 Cash flow analysis

Summarised information and brief commentary on May Gurney's consolidated cash inflows and outflows over the three-year period ended 31 March 2012 and for HY2013 and HY2012 is set out below:

Condensed consolidated statement of cash flows

	6 months to 30 September 2012	6 months to 30 September 2011	12 months to 31 March 2012	12 months to 31 March 2011	12 Months to 31 March 2010
	<i>Unaudited</i>				
	(£m)				
Cash flows from operating activities					
Group operating profit before amortisation and non-recurring costs	2.6	15.0	30.1	25.1	22.1
Non-cash items	11.1	6.0	16.0	9.2	6.8
Working capital movement	(8.3)	(3.3)	(3.7)	(5.7)	1.8
Discontinued operations	10.0	-	-	-	-
Cash generated from continuing operations	15.4	17.7	42.4	28.6	30.7
Cash used in discontinued operations	(2.0)	-	-	-	-
Cash generated from operations	13.4	17.7	42.4	28.6	30.7
Non-recurring business closure costs paid	(1.1)	(0.3)	(3.5)	(1.5)	-
Corporation tax paid	(3.1)	(2.6)	(6.4)	(5.2)	(5.3)
Finance income	0.1	0.2	0.3	0.4	0.4
Finance costs	(1.6)	(0.7)	(2.0)	(1.2)	(0.9)
Net cash from operating activities	7.7	14.3	30.8	21.1	24.9
Cash flows from investing activities					
Purchase of property, plant and equipment	(34.3)	(6.4)	(22.8)	(16.8)	(12.3)
Proceeds from sale of property, plant and equipment	3.2	0.1	1.4	1.4	2.0
Payments to acquire intangible assets	(0.6)	(0.3)	(0.5)	(2.9)	-
Acquisition of subsidiaries and overdraft acquired	-	(0.4)	(18.6)	(15.9)	-
Net cash used in investing activities	(31.7)	(7.0)	(40.5)	(34.2)	(10.3)
Cash flows from financing activities					
Proceeds from sales of own shares by ESOT	-	-	-	-	0.1
Ordinary dividends paid	(3.8)	(3.0)	(4.9)	(3.9)	(3.5)
New finance leases	23.8	-	17.6	16.7	4.1
Payment of finance lease obligations	(10.0)	(3.9)	(11.0)	(6.9)	(5.5)
Loan received	23.0	-	20.0	-	-
Loans repaid	(20.0)	-	(17.2)	-	(0.6)
Net cash received from/(used in) financing activities	13.0	(6.9)	4.5	5.9	(5.4)
(Decrease)/increase in cash and cash equivalents	(11.0)	0.4	(5.2)	(7.2)	9.2
Opening cash and cash equivalents	31.0	36.2	36.2	43.4	34.2
Closing cash and cash equivalents	20.0	36.6	31.0	36.2	43.4

	<i>6 months to 30 September 2012</i>	<i>6 months to 30 September 2011</i>	<i>12 months to 31 March 2012</i>	<i>12 months to 31 March 2011</i>	<i>12 Months to 31 March 2010</i>
	<i>Unaudited</i>				
	<i>(£m)</i>				
Reconciliation of net cash flow to movement in net funds					
(Decrease)/increase in cash and cash equivalents	(11.0)	0.4	(5.2)	(7.2)	9.2
(Increase)/decrease in finance leases	(13.8)	3.9	(6.6)	(9.8)	1.4
Acquired debt	–	–	(28.3)	(1.3)	–
(Decrease)/increase in net funds in the period	(24.8)	4.3	(40.1)	(18.3)	10.6
Opening net (debt)/funds	(29.2)	10.9	10.9	29.2	18.6
Closing net (debt)/funds	54.0	15.2	(29.2)	10.9	29.2

Net funds represent cash and cash equivalents less obligations under finance leases, borrowings and loans.

In HY2013, May Gurney generated cash from continuing operations of £15.4 million (HY2012: £17.7 million), representing a conversion of more than 100 per cent. of EBITA.

May Gurney ended HY2013 with gross cash of £20.0 million (31 March 2012: £31.0 million). Short-term borrowings were £23.0 million, resulting in a net debt of £3.0 million (31 March 2012 net cash: £11.0 million). As at 30 September 2012, May Gurney had a revolving debt facility in place until November 2014 of £33 million. The May Gurney Group also had a £15 million overdraft facility.

May Gurney's business also utilises finance leases to fund vehicles and plant dedicated for use within client contracts. The obligation to repay the capital and interest related to this asset financing is matched within the contracts where the assets are utilised. As at 30 September 2012, the total outstanding obligations under finance leases were £74.0 million (FY2012: £60.2 million).

In FY2012, May Gurney generated cash from operations of £42.4 million (FY2011: £28.6 million), representing a conversion of more than 100 per cent. of EBITA. May Gurney ended FY2012 with gross cash of £31.0 million (31 March 2011: £36.2 million) after funding the acquisition of TransLinc. Set against this was short-term debt of £20 million, (FY2011: £nil) and finance lease obligations of £60.2 million (FY2011: £25.3 million), giving net debt (cash less short term debt and finance lease obligations) of £49.2 million (FY2011: net cash of £10.9 million).

In FY2012, the business also employed finance leases to fund vehicles and plant dedicated for use within client contracts. The obligation to repay the capital and interest related to this asset financing was contained within the contracts where the assets were utilised. As at March 2012, the total outstanding obligations under finance leases were £60.2 million, of which £28.3 million related to assets within the acquired TransLinc business.

In FY2011, May Gurney generated cash from operations of £28.6 million (FY2010: £30.7 million), representing a conversion of more than 100 per cent. of EBITA. The lower generation compared to the prior year was due to the greater number of contract starts driving a working capital outflow, together with the acquired Turriff business having an expected lower cash generation profile than May Gurney. The May Gurney Group ended FY2011 with gross cash of £36.2 million (31 March 2010: £43.4 million) after funding the acquisition of Turriff and its debt.

Net debt (cash less borrowings and finance lease obligations) at the year end FY2011 stood at £10.9 million (FY2010: £29.2 million). The cost of funding finance leases in FY2011 was factored into May Gurney's tenders and, as such, May Gurney did not carry significant asset risk.

In FY2010, the May Gurney Group generated cash from operations of £30.7 million, representing more than 120 per cent. of EBITA, this was assisted by a net gain in working capital in the year.

The interest cost was flat year, finance lease interest charges increased in line with Environmental Services Capex investment, but was modestly offset by the low returns earned on May Gurney's cash balances.

Gross capital investment increased to £12.3 million in FY2010, the largest proportion of which was the Environmental Services business. The May Gurney Group also invested in IT platforms. This was offset from proceeds on disposals of £2.0 million.

9 Capital resources and liquidity

The May Gurney Group's principal sources of liquidity to finance its operations are cash generated from operating activities, finance lease arrangements and short-term borrowings. The May Gurney Group's primary uses of cash are to fund acquisitions, capital expenditure, financing working capital, financing contracts through the mobilisation phase and debt servicing. May Gurney's cash and liquid assets are held in GBP. As at 9 May 2013, being the latest practicable date prior to the date of this document, May Gurney had a net debt (cash less finance lease obligations) balance of approximately £80.6 million.

There are no practical or legislative restrictions inhibiting the transfer of funds between May Gurney Group companies. May Gurney is not currently aware of any significant risks of default. Other than as set out below, May Gurney also has no significant commitments in relation to capital expenditure. May Gurney has no unused sources of capital and no restriction exists on any of its sources of capital other than in relation to finance leases (described below), which are secured against the relevant assets which are the subject of leases.

As at 30 September 2012, the May Gurney Group had the following contractual obligations:

Finance leases

	<i>30 September 2012</i> (£m)
Finance lease and hire purchase obligations	
Repayable: within one year	19.2
Repayable: between two and five years	54.7
Repayable: after more than five years	–
	<hr/> 73.9
(i) Operating lease commitments	
Total commitments due under operating leases:	
Land and buildings	
Within one year	2.6
Between two and five years	6.4
More than five years	1.4
Total	<hr/> 10.4
Other	10.4
Within one year	4.2
Between two and five years	4.0
More than five years	–
	<hr/> 8.2
(ii) Property, plant and equipment	
Future capital expenditure authorised by the May Gurney Directors but not provided for in these financial statements is as follows:	
Contracts placed	7.3

Principal sources of borrowings

The May Gurney Group has historically financed its operations from a range of borrowings including short-term loans, finance leasing arrangements and other credit facilities, such as overdrafts. Currently, the May Gurney Group has no outstanding debt instruments or long-term borrowings, with its activities being financed from its existing cash resources, finance lease arrangements and short-term loans. The May Gurney Group is not subject to any seasonal borrowing requirements.

Short-term loans

The May Gurney Group currently has a revolving credit facility with the Lloyds Banking Group in connection with its acquisition of the Senturion Group and an overdraft.

Finance lease liabilities

The May Gurney Group employs finance leases to fund vehicles and plant dedicated for use within client contracts. The cost of funding these finance leases was factored into May Gurney's tenders and, as such, May Gurney did not carry significant asset risk.

10 Capitalisation and indebtedness

10.1 *Statement of capitalisation and net indebtedness*

The table below shows the May Gurney Group's unaudited consolidated capitalisation and net indebtedness as at 31 March 2013:

	<i>Unaudited 31 March 2013 (£'000)</i>
Shareholders' equity (A)	(88.4)
Current debt	
Guaranteed	—
Secured	(39.7)
Unguaranteed/unsecured	—
Total current debt	(39.7)
Non-current debt	
Guaranteed	—
Secured	(48.7)
Unguaranteed/unsecured	—
Total non-current debt	(48.7)
Total indebtedness (B)	(88.4)
Total capitalisation (A + B)	(176.8)
Cash	22.9
Short-term investments and marketable securities	—
Liquidity (C)	22.9
Current financial receivables (D)	—
Current debt	
Finance leases	(19.7)
Short-term loans	(20.0)
Current financial debt (E)	(39.7)
Net current financial indebtedness (C + D - E) (F)	(16.8)
Non-current debt	
Finance leases	(48.7)
Short-term loans	—
Non-current financial debt (G)	(48.7)
Net current financial indebtedness (F - G)	(65.5)

10.2 *Dividend policy*

The May Gurney Group has a progressive dividend policy, adopted in 2010. An interim dividend of 2.79 pence per share, reflecting the May Gurney Directors' confidence in the May Gurney Group's

continued cash generation and future prospects, was paid on 7 January 2013. A final dividend of 5.63 pence per share was paid for FY2012 (FY2011: 4.52 pence per share). The total dividend paid for FY2012 was 8.42 pence (FY2011: 6.60 pence), up 28 per cent. on FY2011.

10.3 *Capital resources and liquidity management*

The May Gurney Board's policy is to manage its capital base with a view to ensuring its ability to continue as a going concern, to maintain an optimal capital structure to reduce the cost of capital and to maintain investor, other stakeholder and market confidence with a view to sustaining the future development of the business. The May Gurney Group's policy is to carry no significant long-term debt, other than finance leases.

The May Gurney Group does not monitor the debt:equity ratio on a regular basis and does not have an agreed capital target. May Gurney reviews the balance sheet capital structure on a periodic basis as required by significant events. The last such review was in November 2011 following the acquisition of Senturion Limited, trading as TransLinc. This review focuses primarily on the amount of borrowings on the balance sheet, including bank borrowings and overdrafts and total outstanding obligations under finance leases. These figures are reported to the market at each half year.

May Gurney places a high priority on the monitoring of liquidity risk. Its cash and liquid investments comprise cash and term deposits. Surplus cash resources are placed on deposit to maximise returns to May Gurney, whilst maintaining flexibility to meet day-to-day working capital requirements.

11 **Quantitative and qualitative disclosures about market risk**

The May Gurney Directors bear ultimate responsibility for risk management. May Gurney recognises that the identification, assessment, monitoring and response to business risks is essential in the delivery of the May Gurney Group's objectives. May Gurney has policies and processes in place which are designed to enable the business to manage and mitigate its corporate, operational and financial risks. This is reinforced through a programme of training to promote a corporate culture, that seeks to reduce risks in the business.

The May Gurney Group's financial instruments, other than derivatives, comprise cash and liquid investments and borrowings. The May Gurney Group enters into derivatives transactions, namely forward foreign currency contracts, albeit infrequently, to manage the currency risks arising from the May Gurney Group's operations and its sources of finance. The May Gurney Group's foreign currency risk is minimal as the volume of foreign currency transactions is not significant. The May Gurney Group currently has no derivative instruments and sees no immediate requirement for any.

It is the May Gurney Group's policy that no speculative trading in financial instruments shall be undertaken. The use of financial instruments exposes the May Gurney Group to a number of risks, the main ones being credit risk, finance and liquidity risk and interest rate risk. The May Gurney Board reviews and agrees policies for managing each of these risks and they are summarised below.

11.1 *Credit risk*

Credit risk is the risk of financial loss to the May Gurney Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Exposure to credit risk is limited to the carrying amount of financial assets recognised at the relevant reporting date, namely cash and cash equivalents and trade and other receivables. The May Gurney Group monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The May Gurney Group's policy is to deal only with creditworthy counterparties.

The May Gurney Group's management considers that all financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. None of the May Gurney Group's financial assets is secured by collateral or other credit enhancements.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high-quality external credit ratings.

The May Gurney Group's principal credit risk relates to recovery of amounts due under trade contracts. This risk is mitigated by regular application for, and certification of, works completed under contracted arrangements. However, the May Gurney Group has historically had no significant concentration of credit risk in respect of amounts due from contract customers or trade receivable balances, with exposure generally spread over a number of customers and across the May Gurney Group's operating segments.

11.2 *Finance and liquidity risk*

Finance and liquidity risk is the risk that the May Gurney Group will not be able to meet its financial obligations as they fall due. A shortage of liquid assets can occur at any point in time due to an unfavourable development in the operation of the business. The May Gurney Group places a high priority on the monitoring of liquidity risk and takes corrective action at an early stage to ensure financial obligations can be met as they arise. The appropriate level of liquidity is maintained through the May Gurney Group's own cash resources, finance lease arrangements, credit lines/debt instruments or further financing, where required, through major stakeholders and shareholders.

The May Gurney Group's cash and liquid investments comprise cash and term deposits. Surplus cash resources are placed on deposit to maximise returns to the May Gurney Group, whilst maintaining flexibility to meet day-to-day working capital requirements.

The May Gurney Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection.

The May Gurney Group maintains cash to meet its liquidity requirements for up to 30-day periods. Funding in regards to long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

11.3 *Interest rate risk*

The May Gurney Group has fixed and floating rate finance lease commitments. A 1 per cent. increase/decrease in the floating rate would lead to a £0.3 million increase/decrease in the May Gurney Group's finance costs for FY2012.

In addition, interest rate risk arises on the May Gurney Group's cash and cash equivalents. A 1 per cent. increase/decrease in the Bank of England's base rate would lead to a £0.3 million (FY2011: £0.4 million; FY2010: £0.4 million; HY2013: £0.2 million; HY2012: £0.3 million) increase/decrease in the May Gurney Group's finance income for FY2012.

In addition, the May Gurney Group has a revolving credit facility with Lloyds Banking Group which was put in place at the time of May Gurney's acquisition of Senturion Group Limited.

11.4 *Commodity price risk*

Through its environmental services contracts, the May Gurney Group has some exposure to fluctuations in recyclable commodity prices. Where possible, the May Gurney Group seeks to mitigate this risk by passing on the risk and reward of price fluctuations to clients and through the use of cap and collar agreements with buyers of recyclable commodities. The fair value of such contracts is not considered material as a limited amount of recyclable material is held at the end of the year and as such is not recognised in the statement of financial position.

11.5 *Foreign currency risk*

The May Gurney Group does not have significant foreign currency transactions and exposure to foreign currency risk is therefore minimal.

12 **Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the consolidated financial statements taken from May Gurney's annual report and accounts for FY2012 are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

12.1 *Basis of preparation*

The May Gurney Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with parts of the Companies Act applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments, which are recognised using accounting policies as set out below and applied consistently.

12.2 *Adoption of new and revised International Financial Reporting Standards*

In FY2012, the May Gurney Group adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 April 2011.

12.3 *Changes in accounting policy*

The following standards and interpretations came into effect and were adopted in FY2012 but had no effect on the May Gurney Group's financial statements:

- IFRS 1 (amended) First-time adoption of IFRS – limited exemption from comparative IFRS 7 disclosures;
- IAS 24 Related party disclosures (revised 2009);
- IAS 32 (amendment) Financial instruments: Presentation;
- IAS 34 (amendment) Interim financial reporting; and
- IFRIC 19 Extinguishing financial liabilities with equity instruments.

At the date of authorisation of the May Gurney Group's financial statements for FY2012, the following standards and interpretations were in issue but not yet effective and therefore were not applied in those financial statements:

- IFRS 1 (amended) Severe hyperinflation and Removal of fixed dates for first-time adopters;
- IFRS 7 (amended) Financial instruments: disclosures;
- IFRS 9 Financial instruments – classification and measurement;
- IFRS 10 Consolidated financial statements;
- IFRS 11 Joint arrangements;
- IFRS 12 Disclosure of interests in other entities;
- IFRS 13 Fair value measurement;
- IAS 1 Presentation of financial statements – items in other comprehensive income;

- IAS 12 (amended) Income taxes – deferred tax recovery of underlying assets;
- IAS 19 (amended) Employee benefits;
- IAS 27 Separate financial statements; and
- IAS 28 Investments in associates and joint ventures.

The May Gurney Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the May Gurney Group.

12.4 *Consolidation*

(a) *Subsidiaries*

Subsidiaries are consolidated from the date on which control is transferred to the May Gurney Group and deconsolidated from the date at which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the May Gurney Group. The cost of an acquisition is measured at the fair value of the consideration. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable assets and liabilities acquired is recognised as goodwill.

The May Gurney Group financial statements consolidate those of the parent company, May Gurney, and all of its subsidiary undertakings drawn up to the relevant accounting reference date. Subsidiaries are all entities over which the May Gurney Group has the power to control the financial and operating policies. The May Gurney Group obtains and exercises control through more than half of the voting rights.

All transactions and balances between May Gurney Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between May Gurney Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a May Gurney Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the May Gurney Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the May Gurney Group. The May Gurney Group attributes total comprehensive income or loss of subsidiaries between the owners of May Gurney and the non-controlling interests based on their respective ownership interests.

(b) *Jointly controlled operations*

The May Gurney Group has certain contractual operations with other participants to engage in joint operations that do not create an entity carrying on a trade or business of its own. The May Gurney Group includes its share of assets, liabilities and cash flows in such jointly controlled operations, measured in accordance with the terms of each operation, which is usually *pro rata* to the May Gurney Group's interest in the risks in the jointly controlled operation.

(c) *Jointly controlled entities*

A jointly controlled entity is an entity in which the May Gurney Group holds a long-term interest and which is jointly controlled by the May Gurney Group and one or more other venturers under a contractual arrangement. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost.

The May Gurney Group's share of post-acquisition profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Due to the amounts involved not being significant, they are not separately disclosed. Inter-company transactions, balances and unrealised gains on transactions between May Gurney Group companies are eliminated on consolidation. A separate income statement is not presented for May Gurney as it is exempted by section 408 of the Companies Act.

The May Gurney Group has taken advantage of the exemption under regulation 7 of the Partnerships (Accounts) Regulations 2008 that members of a qualifying partnership do not have to publish partnership accounts if the partnership is dealt with on a consolidated basis in group accounts prepared by a parent undertaking of the member. May Gurney WSP JV partnership is consolidated within the May Gurney Group accounts.

12.5 *Goodwill and other intangible assets*

Goodwill arising on consolidation represents the excess of the fair value of the cost of acquisition over the May Gurney 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 intangible asset and is reviewed for impairment annually. It is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing along the lines of the May Gurney Group's operating segments. Any impairment is recognised immediately in the income statement.

Other intangible assets, which consist of an acquired order book, customer relationships, trade marks and software development costs, are stated at cost less accumulated amortisation and impairment losses. Amortisation is based on cost and the useful economic lives of these assets.

Costs associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the May Gurney Group, and that will probably generate economic benefits beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised over their estimated useful life. MGConnect™ costs capitalised in the relevant year are amortised over a period of four years.

12.6 *Impairment*

Assets that have an indefinite useful life are not subject to amortisation and are reviewed for impairment annually and when there are indications that the carrying value may not be recoverable. Assets that are subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

12.7 *Company investments in subsidiary undertakings*

Company investments are included at cost. Provision is made for any impairment in value.

12.8 *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business net of Value Added Tax. Sales of goods are recognised when goods are delivered and title has passed.

Contract revenue reflects the contract activity during the relevant year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the relevant reporting date. The stage of completion is measured by reference to the contract costs incurred up to the relevant reporting date as a percentage of total estimated costs for each contract.

Provision is made in full for estimated losses if the costs of fulfilling the contract exceed the recoverable amount. Revenue is only recognised to the extent that it is probable that it will be recoverable. Where the outcome of a long-term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and contract costs are recognised as an expense in the period in which they are incurred.

In the case of a cost plus contract, the outcome of a contract can be estimated reliably when it is probable that the economic benefits associated with the contract will flow to the May Gurney Group and the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

Revenue from the provision of Fleet & Passenger services represents amounts receivable for vehicle hire, maintenance work and passenger services (excluding VAT) carried out in the relevant accounting period. Income received in respect of future periods is deferred until the service is provided.

Maintenance-related income in primary lease periods is recognised so as to match the revenue against the expected cost of maintenance based on estimation techniques which use current experience.

12.9 *Property, plant and equipment*

Property, plant and equipment is stated at historic cost to the May Gurney Group, being its purchase cost together with any incidental expenses of acquisition.

Depreciation of property, plant and equipment is calculated so as to write off their cost over their expected economic lives, residual values are reassessed on an annual basis. The principal annual rates of depreciation are as follows:

- Freehold land – not depreciated;
- Freehold buildings – between five and 50 years, straight line;
- Short leasehold – 10 per cent. straight line property or life of lease if shorter; and
- Plant, vehicles – between 10 per cent. and 33 per cent. and equipment straight line.

12.10 *Inventories and work-in-progress on construction contracts*

Inventories are valued at the lower of cost and net realisable value. The cost of purchase is determined by means of the weighted average cost formula.

Contract work-in-progress is valued at cost plus attributable profit less foreseeable losses. Attributable profit is included when the outcome of a contract can be assessed with reasonable certainty. The excess of book value over amounts received on individual contracts is included in current trade receivables and payments received in excess of book value are included in current trade payables.

12.11 *Non-recurring items*

Material and non-recurring items of income and expense are disclosed in the income statement as “Non-recurring items”. Examples of items which may give rise to disclosure as “Non-recurring” include, *inter alia*, gains or losses on the disposal of businesses, investments and property, plant and equipment, costs of restructuring and reorganisation of existing businesses and asset impairments.

12.12 *Taxation*

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax payable in respect of the year is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The May Gurney Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantially enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition of other assets and liabilities (other than in a business combination) in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates, and interests in joint ventures, except where the May Gurney Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date.

Deferred tax is calculated based on the laws enacted or substantially enacted by the reporting date and at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

12.13 *Financial instruments*

The financial instruments used by the May Gurney Group comprise net funds, trade receivables and trade payables.

- (a) Loans and receivables do not carry any interest and are initially stated at their fair value and subsequently measured at amortised cost as reduced by appropriate allowance for estimated irrecoverable amounts.
- (b) Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.
- (c) Trade payables are not interest bearing and are initially stated at their fair value and subsequently measured at amortised cost.
- (d) Loans are raised for support of long-term funding of the May Gurney Group's operations. They are recognised at fair value on inception. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement using an effective interest method.
- (e) Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the May Gurney Group after deducting all its liabilities.
- (f) Equity instruments issued by May Gurney are recorded at the proceeds received, net of direct issue costs.

- (g) The May Gurney Group has a policy of not trading in financial instruments and thus the only risks arising, in the normal course of business, are interest rates and liquidity. The May Gurney Group's foreign currency risk is minimal as the volume of foreign currency transactions is not significant. The May Gurney Group currently has no derivative instruments and sees no immediate requirement for any.

12.14 *Accounting for financial assets*

Financial assets consist of receivables, along with cash and cash equivalents.

An assessment of whether a financial asset is impaired is made at least at each reporting date. For receivables, this is based on the latest credit information available, i.e. recent counterparty defaults and external credit ratings. Financial assets that are substantially past due are also considered for impairment. All income and expense relating to financial assets are recognised in the income statement line item "Finance costs" or "Finance income", respectively.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The May Gurney Group's trade and other receivables fall into this category of financial instruments.

Individual receivables are considered for impairment when they are past due at the relevant reporting date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry of a counterparty. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

12.15 *Accounting for financial liabilities*

The May Gurney Group's financial liabilities include borrowings, trade and other payables (including finance lease liabilities), which are measured at amortised cost using the effective interest rate method.

Financial liabilities are recognised when the May Gurney Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line items "Finance costs" or "Finance income".

For business combinations, any changes to the consideration transferred, including contingent consideration, resulting from events after the date of the acquisition are recognised in the income statement.

12.16 *Leases*

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. Assets held under finance leases are recognised as assets of the May Gurney Group at the lower of their fair value or the present value of the minimum lease payments and the capital elements of the commitments are shown as obligations under finance leases. Payments are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and their useful lives.

All other leases are regarded as operating leases and the related payments are charged to the income statement on a straight-line basis over the lease term.

12.17 *Share-based payments*

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2005 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair value of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of certain non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to equity.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium.

12.18 *Employee benefits*

The May Gurney Group and May Gurney contribute to eight defined contribution pension schemes and two defined benefit pension schemes, the assets of which are held separately from those of the May Gurney Group and are invested in managed funds.

In respect of the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit method, with actuarial valuations being carried out at each relevant reporting date. Hence, actuarial gains and losses are recognised in full in the period in which they occur through the statement of comprehensive income. The liability recognised in the statement of financial position is the present value of the defined benefit obligations less the fair value of plan assets. Associated interest credits are included within finance income and charges within finance costs. The current service cost incurred during the relevant year to provide retirement benefits to employees is charged to operating profit. Pension scheme surpluses, to the extent that they are recoverable from future contributions, or deficits are recognised in full and presented on the face of the Statement of Financial Position net of related deferred tax.

In respect of the defined contribution pension schemes, the contributions paid by the May Gurney Group, May Gurney and the employees are invested within the individual funds in the month following the month of deduction. The employer contribution rates are determined by reference to an age, service or grade-related scale or are at a fixed, level percentage. The amounts contributed by the May Gurney Group and May Gurney are charged to the income statement as the contributions fall due. Certain contracts require that employees transfer with protected pension rights and the May Gurney Group and May Gurney are responsible for the pension liability that exists.

12.19 *May Gurney Group Limited Employee Share Ownership Trust ("ESOT") and May Gurney Integrated Services PLC Employee Benefit Trust*

On 28 March 2008, May Gurney Group Trustees Limited, acting in its capacity as trustee of the ESOT, transferred 1,783,324 ordinary shares by way of a gift for £nil consideration to Lloyds TSB Offshore Trust Company Limited acting in its capacity as trustee of the May Gurney Integrated Services PLC Employee Benefit Trust ("EBT"), an offshore trust.

Shares in May Gurney held by the ESOT and EBT are shown as a deduction in arriving at equity funds. Where the purchase of shares by the ESOT/EBT is financed by external bank loans, these loans

are shown within current trade and other payables. Other current assets, liabilities and reserves of the ESOT/EBT are included within the statutory headings to which they relate. The ESOT/EBT are included within the May Gurney financial statements. The ESOT/EBT are accounted for in line with the requirements of SIC 12 which states that May Gurney should consolidate all special purpose entities of which the ESOT/EBT are classified as such.

12.20 *Dividends*

Dividends are recognised in the financial statements in the period in which they are approved by May Gurney's shareholders. Interim dividends are recognised in the period in which they are approved and paid.

12.21 *Provisions*

A provision is recognised in the statement of financial position when the May Gurney Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. When recognising and measuring a provision, events occurring after the reporting date and before authorisation for issue are considered to determine whether such events provide additional evidence of conditions that existed at the relevant reporting date and should therefore be adjusted for.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

12.22 *Significant accounting estimates and judgements*

To be able to prepare accounts according to generally accepted accounting principles, May Gurney's management must make estimates and assumptions that affect the asset and liability items and revenue and expense amounts recorded in the financial statements. These estimates are based on historical experience and various other assumptions that management and the May Gurney Directors believe are reasonable under the circumstances. The results of this form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources.

Areas requiring estimates that may significantly impact on the May Gurney Group's earnings and financial position are as follows:

12.23 *Estimated impairment of goodwill*

The May Gurney Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy previously stated. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Areas requiring critical judgement that may significantly impact on the May Gurney Group's earnings and financial position are as follows:

(a) *Revenue recognition*

The May Gurney Group uses the percentage-of-completion method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the relevant reporting date as a percentage of total estimated costs for each contract.

(b) *Pension benefits*

The present value of pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The May Gurney Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the May Gurney Group's pension obligations. In determining the appropriate discount rate, the May Gurney Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

(c) *Share-based payments*

The weighted average fair value of options granted during the relevant period is determined using the Trinomial pricing model.

(d) *Intangible assets*

The May Gurney Group recognises certain intangible assets on acquisition. Judgements in respect of useful lives, discount rates and valuation methods affect the carrying value and amortisation charges in respect of these assets.

(e) *Impairment of work-in-progress*

In assessing whether work in progress is impaired, estimates are made of future sales revenue, timing and build costs. The May Gurney Group has controls in place to ensure that estimates of sales revenue are consistent, and external valuations are used where appropriate.

PART VII

HISTORICAL FINANCIAL INFORMATION RELATING TO MAY GURNEY

Basis of financial information

The following pages set out the audited consolidated financial information of May Gurney for the years ended 31 March 2010, 31 March 2011 and 31 March 2012, together with the unaudited consolidated financial information of May Gurney for the half year ended 30 September 2012.

The unaudited consolidated financial information for the half year ended 30 September 2012 has been extracted without material adjustment from the financial statements for the half year ended 30 September 2012, as set out in May Gurney's Interim Results for the half year ended 30 September 2012.

The audited consolidated financial information for the years ended 31 March 2010, 31 March 2011 and 31 March 2012, including the relevant audit opinions, has been extracted without material adjustment from the financial statements for the year ended 31 March 2010, as set out in May Gurney's annual report and accounts for 2010, the financial statements for the year ended 31 March 2011, as set out in May Gurney's annual report and accounts for 2011, and the financial statements for the year ended 31 March 2012, as set out in May Gurney's annual report and accounts for 2012.

For the three years ended 31 March 2012 and the half year ended 30 September 2012, no material adjustment to the financial statements of the May Gurney Group is required to achieve consistency with the accounting policies of the Kier Group.

PART A: MAY GURNEY AUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2010

Independent auditor's report to the members of May Gurney Integrated Services PLC

We have audited the financial statements of May Gurney Integrated Services PLC for the year ended 31 March 2010 which comprise the group income statement, the group statement of comprehensive income, the group and parent company statements of financial position, the group and parent company statements of cash flow, the group and parent company statements of changes in equity, the principal accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act. 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

As explained more fully in the directors' responsibilities statement set out on page 46, the May Gurney Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's affairs as at 31 March 2010 and of the group's and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act.

Opinion on other matter prescribed by the Companies Act

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Philip Westerman
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
1 June 2010

Consolidated income statement of the May Gurney Group for the year ended 31 March 2010

	<i>Note</i>	<i>2010</i> <i>(£m)</i>	<i>2009</i>
Group revenue	4	483.1	470.3
Cost of sales		<u>(434.0)</u>	<u>(423.4)</u>
Gross profit		49.1	46.9
Administrative expenses		<u>(27.0)</u>	<u>(26.4)</u>
Group operating profit before amortisation and non-recurring items	2	22.1	20.5
Other expenses			
– Intangible assets amortisation	13	(3.2)	(3.4)
– Other non-recurring costs	3	–	(14.4)
Other income			
– Profit on disposal of property, plant and equipment	3	<u>–</u>	<u>2.8</u>
Operating profit		18.9	5.5
Finance income	5	0.4	0.8
Finance costs	5	<u>(0.9)</u>	<u>(1.1)</u>
Profit before taxation		18.4	5.2
Taxation	8	<u>(5.3)</u>	<u>(2.6)</u>
Profit for the year from continuing operations attributable to the equityholders of the parent		<u>13.1</u>	<u>2.6</u>
Earnings per share (in pence)	10		
Total and from continuing operations			
Basic earnings per share		19.58p	3.93p
Diluted earnings per share		<u>19.25p</u>	<u>3.89p</u>

Consolidated statement of comprehensive income of the May Gurney Group for the year ended 31 March 2010

	<i>Note</i>	<i>2010</i> <i>(£m)</i>	<i>2009</i>
Profit for the year		<u>13.1</u>	<u>2.6</u>
Actuarial losses on defined benefit pension schemes	27	(1.3)	(1.0)
Tax on actuarial losses on defined benefit pension schemes		<u>0.4</u>	<u>0.3</u>
Other comprehensive loss for the year		<u>(0.9)</u>	<u>(0.7)</u>
Total comprehensive income for the year attributable to equity holders of the parent		<u>12.2</u>	<u>1.9</u>

Consolidated statement of changes in equity of the May Gurney Group for the year ended 31 March 2010

	<i>Share capital</i>	<i>Share premium account</i>	<i>Merger relief reserve</i> (£m)	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total equity</i>
Balance at 31 March and 1 April 2008	3.5	13.2	1.9	1.5	45.8	65.9
Profit for the year	–	–	–	–	2.6	2.6
Other comprehensive income:						
Actuarial losses on defined benefit pension schemes	–	–	–	–	(1.0)	(1.0)
Tax on actuarial losses on defined benefit pension schemes	–	–	–	–	0.3	0.3
Total comprehensive income for the year	–	–	–	–	1.9	1.9
Proceeds from disposal of own shares	–	–	–	0.4	–	0.4
Taxation on share sales	–	–	–	(0.5)	–	(0.5)
Share-based payments income statement charge	–	–	–	–	0.4	0.4
Share-based payments – deferred tax relief on future exercise	–	–	–	–	(1.4)	(1.4)
Dividend paid	–	–	–	–	(3.2)	(3.2)
Balance at 31 March and 1 April 2009	3.5	13.2	1.9	1.4	43.5	63.5
Profit for the year	–	–	–	–	13.1	13.1
Other comprehensive income:						
Actuarial losses on defined benefit pension schemes	–	–	–	–	(1.3)	(1.3)
Tax on actuarial losses on defined benefit pension schemes	–	–	–	–	0.4	0.4
Total comprehensive income for the year	–	–	–	–	12.2	12.2
Proceeds from disposal of own shares	–	–	–	0.1	–	0.1
Taxation on share sales	–	–	–	(0.1)	–	(0.1)
Share-based payments income statement charge	–	–	–	–	0.4	0.4
Share-based payments – deferred tax relief on future exercise	–	–	–	–	0.8	0.8
Dividend paid	–	–	–	–	(3.5)	(3.5)
Balance at 31 March 2010	3.5	13.2	1.9	1.4	53.4	73.4

Consolidated balance sheet of the May Gurney Group at 31 March 2010

	<i>Note</i>	<i>2010</i> <i>(£m)</i>	<i>2009</i>
Non-current assets			
Property, plant & equipment	11	25.7	21.9
Goodwill	12	35.2	35.2
Other intangible assets	13	5.6	8.8
Deferred tax asset	15	1.1	–
Retirement benefit surplus	27	–	0.1
		<u>67.6</u>	<u>66.0</u>
Current assets			
Inventories	16	2.7	2.4
Trade and other receivables	17	81.4	78.4
Cash and cash equivalents	18	43.4	34.2
		<u>127.5</u>	<u>115.0</u>
Total assets		<u>195.1</u>	<u>181.0</u>
Current liabilities			
Trade and other payables	19	(105.2)	(100.6)
Current tax liabilities		(1.1)	(1.0)
Obligations under finance leases	21	(5.6)	(5.0)
		<u>(111.9)</u>	<u>(106.6)</u>
Non-current liabilities			
Retirement benefit obligations	27	(1.1)	–
Obligations under finance leases	21	(8.6)	(10.6)
Deferred tax liability	15	–	(0.2)
Provisions	22	(0.1)	(0.1)
		<u>(9.8)</u>	<u>(10.9)</u>
Total liabilities		<u>(121.7)</u>	<u>(117.5)</u>
Net assets		<u>73.4</u>	<u>63.5</u>
Equity			
Share capital	23	3.5	3.5
Share premium account	25	13.2	13.2
Merger relief reserve	25	1.9	1.9
Other reserves	25	1.4	1.4
Retained earnings	25	53.4	43.5
Total equity		<u>73.4</u>	<u>63.5</u>

These financial statements were approved by the board of directors on 1 June 2010.

Philip Fellowes-Prynne
Director

Consolidated cash flow statement for the May Gurney Group for the year ended 31 March 2010

	<i>Note</i>	<i>2010</i> <i>(£m)</i>	<i>2009</i>
Cash flows from operating activities			
Group operating profit before amortisation and non-recurring items		22.1	20.5
Non-cash items		6.8	6.5
Working capital movement		1.8	(2.1)
Cash generated from operations	30	30.7	24.9
Corporation tax paid		(5.3)	(4.0)
Interest received		0.4	0.5
Interest paid		(0.9)	(1.0)
Net cash from operating activities		24.9	20.4
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(12.3)	(8.2)
Proceeds from sale of property, plant and equipment		2.0	5.7
Acquisition of subsidiaries, net of cash acquired		–	(9.7)
Net cash used in investing activities		(10.3)	(12.2)
Cash flows from financing activities			
Non-recurring costs		–	(3.0)
Proceeds from sale of own shares by ESOT	25	0.1	0.3
Ordinary dividends paid	9	(3.5)	(3.2)
New finance leases		4.1	7.2
Payment of finance lease obligations		(5.5)	(3.7)
Loan notes received		–	0.5
Loan notes paid		(0.6)	–
Net cash used in financing activities		(5.4)	(1.9)
Increase in cash and cash equivalents		9.2	6.3
Opening cash and cash equivalents		34.2	27.9
Closing cash and cash equivalents		43.4	34.2
Reconciliation of net cash flow to movement in net funds			
Increase in cash and cash equivalents		9.2	6.3
Decrease/(increase) in finance leases		1.4	(3.5)
Acquired debt		–	(5.2)
Increase/(decrease) in net funds in the year		10.6	(2.4)
Opening net funds		18.6	21.0
Closing net funds		29.2	18.6

Accounting policies

Nature of operations

The principal activities of the Group during the year were infrastructure support services. The Group is incorporated and domiciled in the United Kingdom and is listed on the Alternative Investment Market. The registered office is at the Group office in Trowse, Norwich, UK. The presentation currency used is GB Pound sterling and figures are quoted in millions, rounded to the nearest £100,000.

The principal accounting policies adopted in the presentation of these consolidated and Company financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with parts of the Companies Act applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis, with the exception of intangible assets, certain financial instruments and share-based payments, which are recognised using accounting policies as set out below and applied consistently.

Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 April 2009.

At the date of authorisation of these financial statements, the following new Standard was in issue but not yet effective for accounting periods commencing 1 April 2009 and is anticipated to have a material impact on the financial statements of the Group.

IFRS 3 Business Combinations (revised 2008) (effective periods starting after 1 July 2009)

In January 2008, the IASB issued a revised version of IFRS3 “Business Combinations”. The revised standard will introduce some changes to the existing accounting treatment of business combinations. For example, all transaction costs will be expensed. The standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009. Assets and liabilities arising from business combinations occurring before the date of adoption by the Group will not be restated and thus there will be no effect on the Group’s reported income or net assets on adoption.

The May Gurney Directors anticipate that the adoption of the other Standards and Interpretations in issue but not yet effective will have no material impact on the financial statements of the Group.

Changes in accounting policy

IAS 1 “Presentation of financial statements (revised 2007)” requires the presentation of a statement of changes in equity as a primary statement rather than as a note. In accordance with the new standard the Group does not present a “Statement of recognised income and expense”, as was presented in the 2009 Annual Report and Accounts, and instead introduces a “Statement of comprehensive income”. Since this change is presentational only, there is no impact on net earnings, earnings per share or net assets.

IFRS 8 “Operating segments” requires operating segments to be identified on the basis of information that internally is provided to the Group Chief Executive, who is the Group’s chief operating decision maker. The Group has assessed the revised requirements of IFRS 8 and concluded that no amendments are required to the segmental disclosures previously provided.

The amendment to IFRS 2 “Share-based payment” has been adopted by the Group during the year. The amendment clarifies that the only vesting conditions are service conditions and performance conditions and that any other features, such as the requirement to make regular saving contributions under the Group’s Save As You Earn scheme, are non-vesting conditions. The amendment also clarifies that when an employee can choose whether to meet a non-vesting condition and fails to do so, such a failure must be treated as a cancellation and therefore an acceleration of the share-based payment charge. The adoption of this amendment has not had a material impact on net earnings, earnings per share or net assets during the year.

Consolidation

Subsidiaries

Subsidiaries are consolidated from the date on which control is transferred to the Group and deconsolidated from the date at which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the consideration plus costs directly attributable to the acquisition. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable assets and liabilities acquired is recognised as goodwill.

Jointly controlled operations

The Group has certain contractual operations with other participants to engage in joint operations that do not create an entity carrying on a trade or business of its own. The Group includes its share of assets, liabilities and cash flows in such jointly controlled operations, measured in accordance with the terms of each operation, which is usually *pro rata* to the Group's interest in the risks in the jointly controlled operation.

Jointly controlled entities

A jointly controlled entity is an entity in which the Group holds a long-term interest and which is jointly controlled by the Group and one or more other ventures under a contractual arrangement. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of post-acquisition profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Due to the amounts involved not being significant, they are not separately disclosed.

Inter-company transactions, balances and unrealised gains on transactions between Group companies have been eliminated on consolidation.

A separate income statement has not been presented for May Gurney Integrated Services PLC as exempted by Section 408 of the Companies Act. The profit after tax of the Company in the year was £8.5 million (2009: £0.4 million loss).

Goodwill and other intangible assets

Goodwill arising on consolidation represents the excess of the fair value 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 intangible asset and is reviewed for impairment annually. It is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing along the lines of the Group's operating segments. Any impairment is recognised immediately in the income statement.

Other intangible assets, which consist of acquired order book and customer relationships, are stated at cost less accumulated amortisation and impairment losses. Amortisation is based on cost and the useful economic lives of these assets. Details of these useful economic lives are included in Note 13.

Impairment

Assets that have an indefinite useful life are not subject to amortisation and are reviewed for impairment annually and when there are indications that the carrying value may not be recoverable. Assets that are subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which

the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Company investments in subsidiary undertakings

Company investments are included at cost. Provision is made for any impairment in value.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business net of Value Added Tax.

Sales of goods are recognised when goods are delivered and title has passed.

Contract revenue reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract.

Where the outcome of a long-term contract cannot be estimated reliably revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

In the case of a cost plus contract, the outcome of a contract can be estimated reliably when it is probable that the economic benefits associated with the contract will flow to the Group, and the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

Property, plant and equipment

Property, plant and equipment is stated at historic cost to the Group, being its purchase cost together with any incidental expenses of acquisition.

Depreciation of property, plant and equipment is calculated so as to write off their cost over their expected economic lives, residual values are reassessed on an annual basis. The principal annual rates of depreciation are as follows:

- Freehold land – not depreciated
- Freehold buildings – between 5 and 50 years straight line
- Short leasehold property – 10 per cent. straight line or life of lease if shorter
- Plant, vehicles and equipment – between 10 per cent. and 33 per cent. straight line

Inventories and work in progress on construction contracts

Inventories are valued at the lower of cost and net realisable value. The cost of purchase is determined by means of the weighted average cost formula.

Contract work in progress is valued at cost plus attributable profit less foreseeable losses. Attributable profit is included when the outcome of a contract can be assessed with reasonable certainty. The excess of book value over amounts received on individual contracts is included in current trade receivables and payments received in excess of book value are included in current trade payables.

Non-recurring items

Material and non-recurring items of income and expense are disclosed in the income statement as “Non-recurring items”. Examples of items which may give rise to disclosure as “Non-recurring” include *inter alia* gains or losses on the disposal of businesses, investments and property, plant and equipment, costs of restructuring and reorganisation of existing businesses and asset impairments.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax payable in respect of the year is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantially enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition of other assets and liabilities (other than in a business combination) in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date.

Deferred tax is calculated based on the laws enacted or substantially enacted by the reporting date and at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

The financial instruments used by the Group comprise net funds, trade receivables and trade payables.

- (a) Loans and receivables do not carry any interest and are initially stated at their fair value and subsequently measured at amortised cost as reduced by appropriate allowance for estimated irrecoverable amounts.
- (b) Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.
- (c) Trade payables are not interest bearing and are initially stated at their fair value and subsequently measured at amortised cost.
- (d) Loans are raised for support of long-term funding of the Group's operations. They are recognised at fair value on inception. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement using an effective interest method.
- (e) Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities.
- (f) Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.
- (g) The Group has a policy of not trading in financial instruments and thus the only risks arising, in the normal course of business, are interest rates and liquidity. The Group's foreign currency risk is minimal as the volume of foreign currency transactions is not significant. The Group currently has no derivative instruments and sees no immediate requirement for any.

Accounting for financial assets

Financial assets consist of receivables, along with cash and cash equivalents.

An assessment of whether a financial asset is impaired is made at least at each reporting date. For receivables, this is based on the latest credit information available, i.e. recent counterparty defaults and external credit ratings. Financial assets that are substantially past due are also considered for impairment. All income and expense relating to financial assets are recognised in the income statement line item “finance costs” or “finance income”, respectively.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Group’s trade and other receivables fall into this category of financial instruments.

Individual receivables are considered for impairment when they are past due at the reporting date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry of a counterparty. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Accounting for financial liabilities

The Group’s financial liabilities include borrowings, trade and other payables (including finance lease liabilities), which are measured at amortised cost using the effective interest rate method.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument’s fair value that are reported in profit or loss are included in the income statement line items “finance costs” or “finance income”.

Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. Assets held under finance leases are recognised as assets of the Group at the lower of their fair value or the present value of the minimum lease payments and the capital elements of the commitments are shown as obligations under finance leases. Payments are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and their useful lives.

All other leases are regarded as operating leases and the related payments are charged to the income statement on a straight-line basis over the lease term.

Share-based payments

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2005 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair value of employees’ services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled, share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to equity.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No

adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

Employee benefits

The Group and Company contribute to eight defined contribution pension schemes and a defined benefit pension scheme, the assets of which are held separately from those of the Group and are invested in managed funds.

In respect of the defined benefit pension scheme, the cost of providing benefits is determined using the projected unit method, with actuarial valuations being carried out at each reporting date. Hence actuarial gains and losses are recognised in full in the period in which they occur through the statement of comprehensive income. The liability recognised in the statement of financial position is the present value of the defined benefit obligations less the fair value of plan assets. Associated interest credits are included within finance income and charges within finance costs. The current service cost incurred during the year to provide retirement benefits to employees is charged to operating profit.

In respect of the defined contribution pension schemes, the contributions paid by the Group, Company and the employees are invested within the individual funds in the month following the month of deduction. The employer contribution rates are determined by reference to an age, service or grade related scale or are at a fixed, level percentage. The amounts contributed by the Group and Company are charged to the income statement as the contributions fall due. Certain contracts require that employees transfer with protected pension rights and the Group and Company are responsible for the pension liability that exists.

May Gurney Group Limited Employee Share Ownership Trust (“ESOT”) and Employee Benefit Trust (“EBT”)

On 28 March 2008, May Gurney Group Trustees Limited, acting in its capacity as trustee of the ESOT, transferred 1,783,324 ordinary shares by way of a gift for £nil consideration to Lloyds TSB Offshore Trust Company Limited acting in its capacity as trustee of the EBT, an offshore trust.

Shares in the Company held by the ESOT and EBT are shown as a deduction in arriving at equity funds.

Where the purchase of shares by the ESOT/EBT is financed by external bank loans, these loans are shown within current trade and other payables. Other current assets, liabilities and reserves of the ESOT/EBT are included within the statutory headings to which they relate. The ESOT/EBT are included within the Company financial statements. The ESOT/EBT have been accounted for in line with the requirements of SIC 12 which states that the Company should consolidate all Special Purpose Entities of which the ESOT/EBT are classified as such.

Accounting estimates and judgements

To be able to prepare accounts according to generally accepted accounting principles, management must make estimates and assumptions that affect the asset and liability items and revenue and expense amounts recorded in the financial statements. These estimates are based on historical experience and various other assumptions that management and the Board believe are reasonable under the circumstances. The results of this form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources.

Areas requiring estimates that may significantly impact on the Group’s earnings and financial position are as follows:

(a) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy previously stated. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Further details of the estimates used are set out in Note 12.

Areas requiring critical judgement that may significantly impact on the Group's earnings and financial position are as follows:

(b) *Revenue recognition*

The Group uses the percentage-of-completion method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract.

(c) *Pension benefits*

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 27.

(d) *Share-based payments*

The weighted average fair value of options granted during the period was determined using the Trinomial pricing model. The assumptions used are detailed in Note 24.

(e) *Intangible assets*

The Group recognises certain intangible assets on acquisition. Judgements in respect of useful lives, discount rates and valuation methods affect the carrying value and amortisation charges in respect of these assets. These judgements are shown in Note 13.

(f) *Impairment of work in progress*

In assessing whether work in progress is impaired, estimates are made of future sales revenue, timing and build costs. The Group has controls in place to ensure that estimates of sales revenue are consistent, and external valuations are used where appropriate.

Dividends

Dividends are recognised in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recognised in the period in which they are approved and paid.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. When recognising and measuring a provision, events occurring after the reporting date, and before authorisation for issue, are considered to determine whether such events provide additional evidence of conditions that existed at the reporting date and should therefore be adjusted for.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the accounts

1 Segmental analysis

For management purposes, the Group is currently organised into three segments – Public Sector Services (Highways Services, Environmental Services and Facility Services), Regulated Sector Services (Utility Services, Rail Services and Waterways Services) and Property. The three segments noted are those that are regularly reviewed by the Group's Chief Operating Decision Maker (CODM). Revenue is mostly derived from contract work.

The identification of these reportable segments has come about due to the Group's aim of aligning services more closely with the needs of its long-term clients and the nature of the work the Group delivers for them, namely delivering essential front-line maintenance and enhancement services.

	<i>For the year ended 31 March 2010</i>			
	<i>Public Sector Services</i>	<i>Regulated Sector Services</i>	<i>Property</i>	<i>Group</i>
	<i>(£m)</i>			
Revenue				
Total revenue	285.3	200.8	–	486.1
Less: between segments	(1.6)	(1.4)	–	(3.0)
External revenue	<u>283.7</u>	<u>199.4</u>	<u>–</u>	<u>483.1</u>
Sales between segments are charged at prevailing market prices				
Result per management information reviewed by the CODM				
Group operating profit before amortisation and non-recurring items	14.7	7.4	–	22.1
Intangible assets amortisation	(1.7)	(1.5)	–	(3.2)
Non-recurring items				–
Finance income				0.4
Finance costs				(0.9)
Profit before taxation				<u>18.4</u>
Taxation				(5.7)
Profit for the year per management information				<u>12.7</u>
Taxation adjustment				0.4
Profit for the year per statutory accounts				<u>13.1</u>
Segment assets and liabilities				
Total assets				
Segments	98.6	77.1	11.8	187.5
Not allocated to segments				7.6
				<u>195.1</u>
Total liabilities				
Segments	(69.3)	(47.9)	(1.0)	(118.2)
Not allocated to segments				(3.5)
				<u>(121.7)</u>
Other information				
Capital expenditure	9.9	2.4	–	12.3
Depreciation	4.0	2.6	0.1	6.7

As the Group's activities are almost entirely domestic, no geographical segmental analysis is required.

One customer (2009: one) in the Regulated Sector Services segment accounted for 13 per cent. of total revenue (2009: 11 per cent.) and in 2009 one customer in the Public Sector Services segment accounted for 11 per cent. of total revenue.

	<i>For the year ended 31 March 2009</i>			
	<i>Public Sector Services</i>	<i>Regulated Sector Services</i>	<i>Property</i>	<i>Group</i>
	<i>(£m)</i>			
Revenue				
Total revenue	271.3	203.5	–	478.8
Less: between segments	(1.9)	(2.6)	–	(4.5)
External revenue	<u>269.4</u>	<u>200.9</u>	<u>–</u>	<u>470.3</u>
Sales between segments are charged at prevailing market prices				
Result				
Group operating profit before amortisation and non-recurring items	13.4	7.0	0.1	20.5
Intangible assets amortisation	(1.6)	(1.8)	–	(3.4)
Non-recurring items	(2.5)	(11.9)	2.8	(11.6)
Finance income				0.8
Finance costs				(1.1)
Profit before taxation				<u>5.2</u>
Taxation				(2.6)
Profit for the year				<u>2.6</u>
Taxation adjustment				
Profit for the year per statutory accounts				
Segment assets and liabilities				
Total assets				
Segments	86.4	78.6	11.6	176.6
Not allocated to segments				4.4
				<u>181.0</u>
Total liabilities				
Segments	(59.6)	(57.0)	(0.4)	(117.0)
Not allocated to segments				(0.5)
				<u>(117.5)</u>
Other information				
Capital expenditure	11.8	4.6	1.3	17.7
Depreciation	<u>3.5</u>	<u>3.0</u>	<u>0.2</u>	<u>6.7</u>

As the Group's activities are almost entirely domestic, no geographical segmental analysis is required.

2 Group operating profit before amortisation and non-recurring items

Group operating profit before amortisation and non-recurring items is stated after charging/(crediting):

	<i>For the year ended 31 March</i>	
	<i>2010</i>	<i>2009</i>
	<i>(£m)</i>	
Depreciation (Note 11) – owned	3.1	3.9
– finance lease and hire purchase	3.6	2.8
Profit on sale of plant and machinery	(0.3)	(0.2)
Loss on sale of freehold land and buildings	0.1	—
Directors' emoluments (Note 7)	1.1	1.3
Share-based payments	(0.4)	(0.4)
Fees payable to the Company's auditor for the audit of the annual accounts	—	—
Fees payable to the Company's auditor and its associates for other services		
– audit of the Company's subsidiaries	0.1	0.1
– tax advisory and compliance services	—	0.1
– corporate finance services	—	0.1
Amounts payable under operating leases		
– land and buildings	2.2	2.2
– plant and machinery	5.6	6.6

3 Other non-recurring costs and other income

	<i>For the year ended 31 March</i>	
	<i>2010</i>	<i>2009</i>
	<i>(£m)</i>	
Shared Services restructuring costs	—	(1.8)
Redundancy and associated costs in relation to the reduction in scale of the geotechnical and landfill remediation businesses	—	(1.6)
Impairment of goodwill and intangible assets related to the conclusion of the National Grid gas contract	—	(9.0)
Contract cessation and costs related to the conclusion of the National Grid gas contract	—	(2.0)
	—	(14.4)
Profit on disposal of group office site at Trowse, Norwich	—	2.8
	—	(11.6)

On 28 November 2008, the Group disposed of its interest in the freehold property at Trowse for consideration of £5.1 million. The net book value at date of disposal was £1.9 million and costs of disposal were £0.4 million.

4 Revenue

The following significant categories of revenue were recognised in the year.

	<i>For the year ended 31 March</i>	
	<i>2010</i>	<i>2009</i>
	<i>(£m)</i>	
Revenue arising from:		
Sale of goods	4.7	4.3
Contract revenue	478.4	466.0
	483.1	470.3

5 Finance income and costs

	<i>For the year ended 31 March</i>	
	2010	2009
	<i>(£m)</i>	
Finance income		
Interest receivable from short-term bank deposits	0.2	0.4
Other interest	0.2	0.1
Finance income in relation to the change in value of financial assets	–	0.3
	<u>0.4</u>	<u>0.8</u>
Finance costs		
Finance charges payable under finance leases	(0.9)	(0.8)
Finance cost in relation to defined benefit pension scheme	–	(0.1)
Other interest	–	(0.2)
	<u>(0.9)</u>	<u>(1.1)</u>

6 Staff numbers and costs

The average number of people (including directors) employed by the Group during the year, categorised by segment, was as follows:

	<i>For the year ended 31 March</i>	
	2010	2009
	<i>(£m)</i>	
No. Employees		
Public Sector Services	2,350	2,214
Regulated Sector Services	1,309	1,680
Group and Shared Services	214	209
	<u>3,873</u>	<u>4,103</u>

The aggregate payroll costs of these employees were:

	<i>For the year ended 31 March</i>	
	2010	2009
	<i>(£m)</i>	
Wages and salaries	107.9	117.3
Social security costs	10.5	11.8
Group pension costs (Note 27)	0.9	1.4
Other pension costs (Note 27)	3.1	2.4
	<u>122.4</u>	<u>132.9</u>

The average number of people (including directors) employed by the Company during the year was eight (2009: eight), with an aggregate payroll cost of £1.4 million (2009: £1.5 million).

Key management remuneration has been disclosed per Note 31.

7 Emoluments of directors

	<i>For the year ended 31 March</i>	
	2010	2009
	<i>(£m)</i>	
Directors' emoluments	1.1	1.3

An analysis of directors' emoluments and pension entitlements (including those of the highest-paid director) and their interests in the share capital of the Company is contained in the directors' remuneration report on pages 50 to 54 of the 2010 May Gurney Annual Report and Accounts.

8 Taxation

(A) Analysis of tax charge:

	<i>For the year ended 31 March</i>	
	2010	2009
	<i>(£m)</i>	
Current tax		
Corporation tax on profits for the year	4.6	3.8
Under/(over) provision in respect of prior years	0.9	(0.1)
Total current tax	<u>5.5</u>	<u>3.7</u>
Deferred tax		
Origination and reversal of temporary differences	1.8	0.1
Tax effect of intangible assets amortisation	(0.9)	(1.3)
Retirement benefit obligation	–	0.1
Over provision in respect of prior years	(1.1)	–
Total deferred tax	<u>(0.2)</u>	<u>(1.1)</u>
Total tax charge for the year	<u>5.3</u>	<u>2.6</u>

(B) Factors affecting the tax charge:

The taxation assessed for the year is higher than the standard rate of corporation tax in the UK (28 per cent.).

The charge is affected by a number of factors in addition to the standard UK rate. The differences are explained as follows:

	<i>For the year ended 31 March</i>	
	2010	2009
	<i>(£m)</i>	
Profit before tax	18.4	5.2
Profit before tax multiplied by standard rate of corporation tax in the UK of 28 per cent. – expected charge	5.2	1.4
Effects of:		
Expenses not deductible for tax purposes	0.3	1.6
Profit on disposal of land and buildings	–	(0.3)
Adjustments to tax charge in respect of previous year (current and deferred)	(0.2)	(0.1)
Total tax charge for year (Note 8(a))	<u>5.3</u>	<u>2.6</u>

The effective tax rate, excluding the impact of non-recurring items, for the year is 28.8 per cent. (2009: 28.7 per cent.).

The corporation tax liability in the year has been affected by tax relief of £0.1 million on the exercise of share options in the year. This is offset by a corresponding reduction in the associated deferred tax asset.

9 Dividends

	<i>For the year ended 31 March</i>	
	2010	2009
	<i>(£m)</i>	
Amounts recognised as distributions to equity holders in the period:		
Final dividend paid for the year ended 31 March 2009 of 3.4 pence per share	2.3	2.0
Interim dividend paid for the year ended 31 March 2010 of 1.8 pence per share	1.2	1.2
	<u>3.5</u>	<u>3.2</u>

The proposed final dividend of 3.7 pence per share had not been approved at the reporting date and so has not been included as a liability in these financial statements. The dividend will be paid on 13 July 2010 to holders of ordinary shares on the register at the close of business on 11 June 2010.

The Trustee of the May Gurney Group Limited Employee Share Ownership Trust has waived its right to receive any dividends in respect of shares held in the Trust.

10 Earnings per share

	<i>For the year ended 31 March</i>	
	2010	2009
	<i>(£m)</i>	
Profit for the year	13.1	2.6
Basic/diluted earnings	<u>13.1</u>	<u>2.6</u>
Adjustments to basic earnings		
Intangible assets amortisation	3.2	3.4
Non-recurring profit on disposal of property, plant & equipment	–	(2.8)
Other non-recurring costs	–	14.4
Tax on non-recurring items	(0.9)	(3.2)
Underlying earnings	<u>15.4</u>	<u>14.4</u>
	<i>Number of shares</i>	
	2010	2009
	<i>(Number not £)</i>	
Weighted average number of ordinary shares for the purposes of basic earnings per share	66,993,564	66,191,939
Effect of dilutive potential ordinary shares	<u>1,152,022</u>	<u>656,873</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>68,145,586</u>	<u>66,848,812</u>
Weighted average number of ordinary shares for the purposes of underlying earnings per share	<u>70,236,016</u>	<u>70,236,016</u>
	<i>Pence</i>	
	2010	2009
	<i>p</i>	
Underlying earnings per share	21.92	20.50
Basic earnings per share	19.58	3.93
Diluted earnings per share	<u>19.25</u>	<u>3.89</u>

Underlying earnings per share, before non-recurring items, has been disclosed to give a clearer understanding of the Group's underlying trading performance. It has been calculated using the underlying earnings figures above and an adjusted weighted average number of ordinary shares which includes those shares held by the Group Employee Share Ownership Trust.

Diluted earnings per share is the basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the number of options outstanding during the year (see Note 24).

11 Property, plant and equipment

	<i>For the year ended 31 March 2010</i>			<i>Total</i>
	<i>Freehold land and buildings</i>	<i>Short leasehold property</i>	<i>Plant, vehicles and equipment</i>	
	<i>(£m)</i>			
Group				
Cost				
At 1 April 2008	4.9	0.4	27.1	32.4
Acquisition of subsidiary undertakings	1.2	0.1	7.9	9.2
Additions	0.1	–	8.4	8.5
Disposals	(3.1)	–	(2.7)	(5.8)
At 1 April 2009	3.1	0.5	40.7	44.3
Additions	–	–	12.3	12.3
Disposals	(0.6)	–	(4.3)	(4.9)
At 31 March 2010	2.5	0.5	48.7	51.7
Depreciation				
At 1 April 2008	1.3	0.3	16.9	18.5
Charge for year	0.2	0.1	6.4	6.7
Disposals	(0.7)	–	(2.1)	(2.8)
At 1 April 2009	0.8	0.4	21.2	22.4
Charge for year	0.1	–	6.6	6.7
Disposals	–	–	(3.1)	(3.1)
At 31 March 2010	0.9	0.4	24.7	26.0
Net book value at 31 March 2010	1.6	0.1	24.0	25.7
Net book value at 1 April 2009	2.3	0.1	19.5	21.9

Included in the total net book value of plant, vehicles and equipment is £13.4 million (2009: £13.9 million) in respect of assets acquired under finance leases and hire purchase agreements. Depreciation for the year on these assets was £3.6 million (2009: £2.8 million).

12 Goodwill

	<i>For the year ended 31 March 2010</i>
	<i>Total</i>
	<i>(£m)</i>
Group	
Cost and net book value at 1 April 2008	35.3
Impairment	(7.9)
Acquisition of subsidiaries	7.8
At 1 April 2009 and 31 March 2010	35.2

For the year ended 31 March
2010 2009
(£m)

Group

May Gurney Group Limited	5.4	5.4
May Gurney Limited – dormant companies ⁽¹⁾	25.0	25.0
May Gurney Recycling CIC	4.8	4.8
	35.2	35.2
	35.2	35.2

Note:

(1) The assets and trade of TJ Brent Limited, T Cartledge Limited, AC Chesters & Son Limited, FDT Holdings Limited and Southern Household Waste Recycling Centre Business (SHWRC) have all been hived up into May Gurney Limited. These companies are now dormant.

The carrying values of the Group's goodwill are reassessed at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If analysis indicates that the carrying value is too high, then this is reduced to its recoverable amount which is the higher of fair value less costs to sell and its value in use.

Value in use is calculated using pre-tax cash flow projections based on financial budgets and business plans covering a four year period, which take into account historical trends and market conditions, and which have been approved by the Board. The cash flow forecasts are adjusted by an appropriate discount rate derived from our cost of capital plus a reasonable risk premium at the date of valuation.

The key assumptions are: operating margin (4-5 per cent.); average annual growth rate (0-7 per cent.); and pre-tax discount rate (10 per cent.). The average growth rates used are consistent with forecasts included in industry reports.

The Group's impairment review is sensitive to changes in the key assumptions used, in particular the growth rate and discount rate. However, based on the Group's sensitivity analysis, a reasonable change in a single assumption will not cause impairment in any of the Group's cash-generating units.

The impairment charge in the prior year in respect of Willows Plant Limited arose following the cessation of the National Grid Gas contract within the Regulated Sector Services segment.

13 Other intangible assets

	<i>For the year ended 31 March 2010 Total (£m)</i>
Group	
Valuation	
At 1 April 2008	16.1
Additions	3.8
At 1 April 2009 and 31 March 2010	<u>19.9</u>
Amortisation	
At 1 April 2008	6.6
Impairment	1.1
Charge for year	3.4
At 1 April 2009	<u>11.1</u>
Charge for year	3.2
At 31 March 2010	<u>14.3</u>
Net book value at 31 March 2010	<u>5.6</u>
Net book value at 1 April 2009	<u>8.8</u>

Other intangible assets valuation comprises:

	<i>Carrying value</i>	<i>Valuation</i>	<i>UEL*</i>	
<i>Year acquired</i>	<i>(£m)</i>	<i>(£m)</i>	<i>years</i>	
TJ Brent Order book ⁽¹⁾	2005	–	2.1	2
TJ Brent Customer relationships ⁽¹⁾	2005	0.8	6.4	10
AC Chesters Order book ⁽¹⁾	2007	–	1.2	3
AC Chesters Customer relationships ⁽¹⁾	2007	0.3	0.3	8
FDT Order book ⁽¹⁾	2008	–	0.6	3
FDT Customer relationships ⁽¹⁾	2008	0.3	0.5	5
Willows Order book ⁽¹⁾	2008	–	0.3	1.5
Willows Customer relationships ⁽¹⁾	2008	–	1.0	4
SHWRC Business Order book ⁽²⁾	2008	2.1	3.7	8.5
ECT Order book ⁽²⁾	2009	2.0	3.3	7
ECT Customer relationships ⁽²⁾	2009	0.1	0.5	7
		<u>5.6</u>	<u>19.9</u>	

Notes:

(1) Regulated Sector Services operating segment.

(2) Public Sector Services operating segment.

* UEL = Original Useful Economic Life

For the valuations above the purchase price allocation method was used, which required identification and fair value estimation of the individual intangible assets acquired. In order to arrive at an estimate of fair value, the income approach was used which values the cash flows that the asset might reasonably be expected to generate.

The impairment charge in the prior year in respect of Willows Plant Limited arose following the cessation of the National Grid Gas contract within the Regulated Sector Services segment.

14 Investments

	<i>Shares in subsidiary undertakings</i>	<i>2010 Total (£m)</i>	<i>2009 Total</i>
Company			
Cost and net book value			
At beginning and end of year	20.3	20.3	20.3

Refer to Note 29 for the list of subsidiary entities.

15 Deferred tax asset/(liability)

	<i>For the year ended 31 March</i>			
	<i>2010 Group</i>	<i>2010 Company (£m)</i>	<i>2009 Group</i>	<i>2009 Company</i>
At beginning of year	(0.2)	0.3	0.6	0.9
Acquisition of subsidiaries	–	–	0.1	–
Credited direct to equity	1.2	0.6	(1.2)	(0.6)
Relief on exercise of share options	(0.1)	–	(0.8)	–
Income statement credit	0.2	–	1.1	–
At end of year	1.1	0.9	(0.2)	0.3

Deferred taxation at 28 per cent. (2009: 28 per cent.) is in respect of:

For the year ended 31 March

	<i>For the year ended 31 March</i>			
	<i>2010 Group</i>	<i>2010 Company (£m)</i>	<i>2009 Group</i>	<i>2009 Company</i>
Depreciation in excess of capital allowances	0.2	–	0.9	–
Other temporary differences	1.0	–	1.0	–
Intangible assets acquired	(1.6)	–	(2.5)	–
Share-based payments	1.2	0.6	0.4	0.3
Defined benefit pension scheme	0.3	0.3	–	–
Deferred tax asset/(liability)	1.1	0.9	(0.2)	0.3

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

16 Inventories and short-term contracts

	<i>For the year ended 31 March</i>	
	<i>2010 Group</i>	<i>2009 Group</i>
	<i>(£m)</i>	
Raw materials and consumables	0.3	0.4
Finished goods and goods for resale	2.4	2.0
	2.7	2.4

The amount of inventories recognised as an expense during the year was £6.5 million (2009: £6.2 million).

17 Trade and other receivables

	<i>For the year ended 31 March</i>			
	<i>2010</i>	<i>2010</i>	<i>2009</i>	<i>2009</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Trade receivables	67.9	–	65.2	–
Amounts due from contract customers	7.0	–	7.6	–
Other receivables	5.4	–	4.5	–
Prepayments and accrued income	1.1	0.2	1.1	0.2
	<u>81.4</u>	<u>0.2</u>	<u>78.4</u>	<u>0.2</u>

Trade and other receivables are initially stated at their fair value and subsequently measured at amortised cost as reduced by appropriate allowance for estimated irrecoverable amounts. The directors consider that the carrying values of current trade and other receivables approximate their fair values.

Amounts due from contract customers relates to value in excess of cash received recognised on long-term contracts. At 31 March 2010 there was one contract being accounted for as a long-term contract (2009: one).

Trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be potentially impaired and a provision of £0.4 million (2009: £0.3 million) has been recorded accordingly.

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	<i>For the year ended 31 March</i>			
	<i>2010</i>	<i>2010</i>	<i>2009</i>	<i>2009</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Not more than three months	8.9	–	5.5	–
More than three months but not more than six months	0.8	–	1.0	–
	<u>9.7</u>	<u>–</u>	<u>6.5</u>	<u>–</u>

The movement in the provision for impairment of trade receivables is as follows:

	<i>For the year ended 31 March</i>			
	<i>2010</i>	<i>2010</i>	<i>2009</i>	<i>2009</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Balance at 1 April 2009	0.3	–	0.5	–
Credited to the income statement				
– additional provisions	0.3	–	0.2	–
– unused amounts reversed	(0.2)	–	(0.4)	–
Balance at 31 March 2010	<u>0.4</u>	<u>–</u>	<u>0.3</u>	<u>–</u>

The ageing of the impaired receivables is as follows:

	<i>For the year ended 31 March</i>			
	<i>2010</i>	<i>2010</i>	<i>2009</i>	<i>2009</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
		<i>(£m)</i>		
Six to nine months	0.1	–	0.1	–
Nine to 12 months	0.1	–	0.1	–
Over 12 months	0.2	–	0.1	–
	<u>0.4</u>	<u>–</u>	<u>0.3</u>	<u>–</u>

Credit risk

Exposure to credit risk is disclosed in Note 20.

18 Cash and cash equivalents

	<i>For the year ended 31 March</i>			
	<i>2010</i>	<i>2010</i>	<i>2009</i>	<i>2009</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
		<i>(£m)</i>		
Cash at bank and in hand	28.4	20.7	34.2	38.5
Short-term bank deposits	15.0	5.0	–	–
	<u>43.4</u>	<u>25.7</u>	<u>34.2</u>	<u>38.5</u>

The carrying amount of cash and cash equivalents approximates their fair value.

19 Trade and other payables

	<i>For the year ended 31 March</i>			
	<i>2010</i>	<i>2010</i>	<i>2009</i>	<i>2009</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
		<i>(£m)</i>		
Amounts due to contract customers	0.8	–	1.9	–
Trade payables	76.5	0.1	69.1	0.1
Contingent consideration	–	–	0.6	–
Amounts owed to subsidiary undertakings	–	14.9	–	33.3
Other tax and social security	9.3	1.0	10.4	0.6
Other payables	7.0	0.2	10.8	0.5
Accruals and deferred income	11.6	0.2	7.8	–
	<u>105.2</u>	<u>16.4</u>	<u>100.6</u>	<u>34.5</u>

Trade and other payables are initially stated at their fair value and subsequently measured at amortised cost. The May Gurney Directors consider that the carrying values of current trade and other payables approximate their fair values.

Amounts due to contract customers relates to cash received in excess of value recognised.

20 Financial instruments

Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group comprises equity attributable to equity holders of May Gurney Integrated Services PLC consisting of issued ordinary share capital, reserves and retained earnings as disclosed in Notes 23 and 25 and cash and cash equivalents as disclosed in Note 18.

The Group maintains or adjusts its capital structure through the payment of dividends to shareholders. The Group's policy is to carry no significant debt, other than finance leases.

The Group's overall capital risk management strategy remains unchanged from 2009.

Financial risk management

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

The Group's finance department manages the principal financial risks within policies and operating parameters approved by the Board.

Commodity price risk

Through its environmental services contracts, the group has some exposure to fluctuations in recyclable commodity prices. Where possible, the group seeks to mitigate the risk by passing on the risk and reward of price fluctuations to clients and through the use of cap and collar agreements with buyers of recyclables commodities.

Foreign currency risk

The Group does not have significant foreign currency transactions and exposure to foreign currency risk is therefore minimal. Accordingly, these financial statements do not include any sensitivity analysis in respect of currency risk.

Interest rate risk

Interest rate risk does not arise on the Group's obligations under finance leases as interest rates are fixed at the start of the lease.

Interest rate risk arises on the Group's cash and cash equivalents. A 1 per cent. increase/decrease in the Bank of England base rate would lead to a £0.4 million (2009: £0.3 million) increase/decrease in the Group's finance income.

Price risk

The May Gurney Directors do not consider there to be any price risk relating to equity instruments and hence no need for any related disclosures.

Credit risk

Exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, namely cash and cash equivalents and trade and other receivables.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that all financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. An analysis of amounts that are past due but not impaired is shown in Note 17.

None of the Group's financial assets is secured by collateral or other credit enhancements.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high-quality external credit ratings.

The Group has no significant concentration of credit risk in respect of amounts due from contract customers or trade receivable balances at the reporting date, with exposure spread over a number of customers and across the Group's operating segments.

Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection.

The Group maintains cash to meet its liquidity requirements for up to 30-day periods. Funding in regards to long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

Categories of financial instruments

	2010		Financial liabilities at 2010		2009		Financial liabilities at 2009	
	Loans and receivables	Non-financial assets	amortised cost	Non-financial liabilities	Loans and receivables	Non-financial assets	amortised cost	Non-financial liabilities
	(£m)							
Financial assets								
Cash at bank	43.4	–	–	–	34.2	–	–	–
Trade receivables								
– current	67.9	–	–	–	65.2	–	–	–
Other receivables								
– current	12.4	–	–	–	12.2	–	–	–
Prepayments	1.1	–	–	–	1.1	–	–	–
Total	124.8	–	–	–	112.7	–	–	–
Financial liabilities								
Trade payables	–	–	(76.5)	–	–	–	(69.1)	–
Other liabilities								
– current	–	–	(7.8)	–	–	–	(12.7)	–
Other liabilities								
– non-current	–	–	–	(0.1)	–	–	–	(0.1)
Accruals	–	–	(11.6)	–	–	–	(7.8)	–
VAT and taxation payables	–	–	–	(10.4)	–	–	–	(11.4)
Contingent consideration	–	–	–	–	–	–	–	(0.6)
Total	–	–	(95.9)	(10.5)	–	–	(89.6)	(12.1)
Net	124.8	–	(95.9)	(10.5)	112.7	–	(89.6)	(12.1)

	2010		Financial liabilities at 2010 Non-financial liabilities amortised cost		2009		Financial liabilities at 2009 Non-financial liabilities amortised cost	
	Loans and receivables	Non-financial assets			Loans and receivables	Non-financial assets		
	(£m)							
Financial assets								
Cash at bank	25.7	–	–	–	38.5	–	–	–
Other receivables	–	–	–	–	–	–	–	–
Prepayments	0.2	–	–	–	0.2	–	–	–
VAT and taxation receivables	–	1.1	–	–	–	1.5	–	–
Investments in subsidiaries	–	20.3	–	–	–	20.3	–	–
Total	25.9	21.4	–	–	38.7	21.8	–	–
Financial liabilities								
Trade payables	–	–	(0.1)	–	–	–	(0.1)	–
Other liabilities – current	–	–	(15.0)	–	–	–	(33.7)	–
Accruals	–	–	(0.2)	–	–	–	–	–
VAT and taxation payables	–	–	–	(1.0)	–	–	–	(0.7)
Total	–	–	(15.3)	(1.0)	–	–	(33.8)	(0.7)
Net	25.9	21.4	(15.3)	(1.0)	38.7	21.8	(33.8)	(0.7)

Maturity of the Group's financial liabilities

	2010 Trade and other payables		2010 Finance leases		2009 Trade and other payables		2009 Finance leases	
	(£m)							
Due within one year	95.9	6.3	102.2	89.6	6.0	95.6	5.1	100.7
Due within one to two years	–	5.0	5.0	–	5.1	5.1	–	5.1
Due within two to five years	–	4.3	4.3	–	6.7	6.7	–	6.7
	95.9	15.6	111.5	89.6	17.8	107.4	5.1	112.5

The above contractual maturities reflect the gross cash flows which may differ to the carrying values of the liabilities at the reporting date.

21 Obligations under finance leases

	For the year ended 31 March	
	2010 Group	2009 Group
	(£m)	
Finance lease and hire purchase obligations		
Repayable: within one year	5.6	5.0
Repayable: between two and five years	8.6	10.6
	14.2	15.6

The net obligations under finance lease and hire purchase agreements of £14.2 million (2009: £15.6 million) are secured on the assets acquired. The May Gurney Directors consider that there is no material difference between the carrying value and the fair value of finance lease obligations.

The gross obligations under finance lease and hire purchase agreements are £15.6 million (2009: £17.8 million).

During the year, obligations totalling £nil (2009: £5.2 million) were taken on through acquisitions.

22 Provisions and other liabilities

	<i>For the year ended 31 March</i>	
	<i>2010</i>	<i>2009</i>
	<i>Group</i>	<i>Group</i>
	<i>(£m)</i>	
At beginning of year	0.1	0.3
Credit for the year	–	(0.2)
At end of year	<u>0.1</u>	<u>0.1</u>

The above provisions comprise £0.1 million (2009: £0.1 million) in respect of site reinstatement obligations where the Group was formerly engaged in the excavation of sand and aggregates and other site reinstatement obligations.

23 Share capital

	<i>For the year ended 31 March</i>	
	<i>2010</i>	<i>2009</i>
	<i>Group</i>	<i>Group</i>
	<i>(£m)</i>	
Authorised		
Equity shares		
Ordinary 5 pence shares	<u>6.8</u>	<u>6.8</u>
Issued and fully paid		
Equity shares		
Ordinary 5 pence shares	<u>3.5</u>	<u>3.5</u>
Authorised ordinary 5 pence shares	<u>135,000,000</u>	<u>135,000,000</u>
Issued ordinary 5 pence shares	<u>70,236,016</u>	<u>70,236,016</u>

24 Share-based payments

The following expense was charged in respect of the Group's share-based incentive schemes:

	<i>For the year ended 31 March</i>	
	<i>2010</i>	<i>2009</i>
	<i>Group</i>	<i>Group</i>
	<i>(£m)</i>	
LTIP	0.2	–
Sharesave	0.2	0.2
CSOP and other schemes	–	0.2
Total	<u>0.4</u>	<u>0.4</u>

For options granted post-flotation (June 2006), independent valuations have been used to determine the fair values for share-based payments.

The fair values and assumptions used were as follows:

	<i>LTIP 06</i>	<i>LTIP 07</i>	<i>LTIP 08</i>	<i>LTIP 09</i>	<i>CSOP 07</i>	<i>CSOP 08</i>	<i>CSOP 09</i>	<i>Sharesave 07</i>	<i>Sharesave 08</i>	<i>Sharesave 09</i>	<i>Stand alone option 06</i>	<i>Stand alone option 07</i>
Price model	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial
Grant date	21 June 06	5 June 07	8 July 08	8 July 09	25 July 07	8 July 08	8 July 09	21 August 07	8 August 08	12 August 09	12 March 07	25 July 07
Share price at grant	186.00p	311.00p	236.00p	161.00p	335.50p	236.00p	161.00p	315.50p	241.00p	175.00p	330.00p	335.50p
Exercise price	Nil	Nil	Nil	Nil	335.50p	236.00p	161.00p	254.00p	196.00p	139.00p	330.00p	335.50p
Option life	10 years	10 years	10 years	10 years	10 years	10 years	10 years	3 years	3.6 years	3.6 years	10 years	10 years
Expected vesting life	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3.1 years	3.1 years	2 years	3 years
Risk-free rate	4.73%	5.32%	5.03%	3.73%	5.30%	5.03%	3.73%	5.17%	4.68%	3.03%	4.80%	5.30%
Expected volatility	25%	25%	30%	40%	25%	30%	40%	25%	30%	40%	25%	25%
Expected dividend yield	2%	2%	2%	3%	2%	2%	3%	2%	2%	3%	2%	2%
Value per option	186.00p	292.30p	222.00p	147.00p	95.40p	72.00p	52.00p	99.80p	79.00p	36.00p	87.06p	95.40p

For 2003 Scheme options, which were granted prior to flotation, the fair values of services received in return for, share-based payments were measured by the fair value of shares received and options granted. Owing to the absence of a market for the Company's shares at the time of grant, the Company used share valuation methodology which looks at comparator listed companies and adjusts for the lack of an active market by means of discounting their quoted price earnings ratios. The risk-free rate of return was assumed to be 5 per cent.

May Gurney Integrated Services Unapproved Share Option Scheme (the "2003 Scheme")

The 2003 Scheme was adopted in 2003 and ceased issuing new options on the flotation of the Company. Under the Scheme, options were granted to executive directors and to senior and middle management. The exercise of some of the options granted under the 2003 Scheme was conditional upon the achievement of objective performance targets set by the Trustee of the ESOT at the time of grant. Options granted under the 2003 Scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company's subsidiaries. Further details of the scheme are included in the May Gurney Directors' remuneration report.

Options granted, exercised and forfeited under the scheme were as follows:

	2010		2009	
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	837,500	25.03p	2,633,000	26.34p
Granted		–		–
Exercised	(241,000)	22.62p	(1,470,500)	25.63p
Lapsed	–	–	(325,000)	32.96p
Outstanding at end of year	596,500	26.01p	837,500	25.03p
Exercisable at the end of the year	396,500	13.58p	587,500	15.56p

The weighted average share price at date of exercise was 179 pence (2009: 208 pence).

The May Gurney Long Term Incentive Plan ("LTIP")

The LTIP scheme is a long-term incentive plan for executive directors and senior managers. The exercise of awards granted under the LTIP will in normal circumstances be conditional upon the achievement of objective performance targets set at the time of grant. Such performance targets shall be measured over a performance period. Options granted under the LTIP Scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company's subsidiaries. Further details of the scheme are included in the May Gurney Directors' remuneration report. Options granted, exercised and forfeited under the scheme were as follows:

	2010		2009	
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	585,698	–	441,878	–
Granted	674,143	–	514,978	–
Exercised	–	–	–	–
Lapsed	(310,015)	–	(371,158)	–
Outstanding at end of year	949,826	–	585,698	–
Exercisable at the end of the year	–	–	–	–

The May Gurney Savings Related Share Option Scheme (“Sharesave”)

The Sharesave scheme was established in July 2007. Participation is offered to all employees of the Group who have been employed for a continuous period which is determined by the Board. Under the Sharesave contract participating employees save a regular sum each month for three years of not less than £5 nor more than £250 per month.

Options to acquire ordinary shares in the capital of the Company will be granted to eligible employees who enter into a Sharesave contract. The number of options will be that number of shares which have an aggregate option price not exceeding the projected proceeds of the Sharesave contract including any bonus. The option price per share will not be less than 80 per cent. of the market value of an ordinary share on the day on which invitations to apply for options are issued.

Options granted under the Sharesave scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company’s subsidiaries. Further details of the scheme are included in the May Gurney Directors’ remuneration report. Options granted, exercised and forfeited under the scheme were as follows:

	2010		2009	
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	1,644,511	221.26p	987,548	254.00p
Granted	1,048,312	139.00p	1,041,641	196.00p
Exercised	(1,618)	254.00p	–	–
Lapsed	(799,644)	211.86p	(384,678)	238.35p
Outstanding at end of year	<u>1,891,561</u>	<u>179.05p</u>	<u>1,644,511</u>	<u>211.26p</u>
Exercisable at the end of the year	–	–	–	–

The May Gurney Company Share Ownership Plan (“CSOP”)

The CSOP scheme is a long-term incentive plan for senior managers. The exercise of awards granted under the CSOP will in normal circumstances be conditional upon the achievement of objective performance targets set at the time of grant. Such performance targets shall be measured over a performance period. Options granted under the CSOP scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company’s subsidiaries. Options granted, exercised and forfeited under the scheme were as follows:

	2010		2009	
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	316,633	261.24p	92,387	335.50p
Granted	77,875	161.00p	258,194	236.25p
Exercised	–	–	–	–
Forfeited	(134,627)	253.38p	(33,948)	274.45p
Outstanding at end of year	<u>259,881</u>	<u>257.46p</u>	<u>316,633</u>	<u>261.24p</u>
Exercisable at the end of the year	–	–	–	–

ESOT reserve

As at 31 March 2010 the ESOT held 1,434,378 (2009: 1,604,378) ordinary 5 pence shares in the Company.

The maximum number of 5 pence ordinary shares held in the Company by the ESOT during the year was 1,604,378 (2009: 3,074,878).

The ordinary shares in the Company held by the ESOT represent 2.0 per cent. (2009: 2.3 per cent.) of the ordinary share capital of the Company.

On 28 March 2008, May Gurney Group Trustees Limited, acting in its capacity as trustee of the ESOT, transferred 1,783,324 ordinary shares by way of a gift for nil consideration to Lloyds TSB Offshore Trust Company Limited acting in its capacity as trustee of the May Gurney Integrated Services PLC Employee Benefit Trust (EBT), an offshore trust. The ordinary shares in the Company held by the EBT represent 2.5 per cent. of the ordinary share capital of the Company. At 31 March 2010 the EBT held 1,710,347 (2009: 1,783,324) ordinary shares.

26 Commitments

	<i>For the year ended 31 March</i>	
	<i>2010 Group</i>	<i>2009 Group</i>
	<i>(£m)</i>	
(i) Operating lease commitments		
Total commitments due under operating leases:		
Land and buildings		
Within one year	2.2	2.1
Between two and five years	4.6	4.1
More than five years	1.6	2.2
	<hr/>	<hr/>
	8.4	8.4
	<hr/>	<hr/>
Other		
Within one year	5.6	6.6
Between two and five years	8.5	12.2
More than five years	1.0	1.2
	<hr/>	<hr/>
	15.1	20.0
	<hr/>	<hr/>
(ii) Property, plant and equipment		
Future capital expenditure authorised by the May Gurney Directors but not provided for in these financial statements is as follows:		
Contracts placed	7.1	1.5
	<hr/>	<hr/>

27 Employee benefits

Defined contribution pension schemes

The Group operates eight defined contribution pension schemes (2009: nine) and contributions during the year amounted to £3.1 million (2009: £2.4 million). The schemes are the May Gurney Defined Contribution Pension Scheme, TJ Brent Limited Group Personal Pension Plan, T Cartledge Limited Group Personal Pension Plan, AC Chesters & Son Limited Staff Pension Scheme, FDT Executive Pension Plan, FDT Group Personal Pension Plan, FDT Stakeholder Pension and Willows Plant Limited Group Personal Pension Plan.

The Group also makes contributions to local government defined benefit pension schemes in respect of certain employees who have transferred to the Group under TUPE transfer arrangements. The Group is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and consequently the pension costs for these schemes are treated as if they were defined contribution schemes.

Defined benefit pension scheme

The Group operates a defined benefit pension scheme (May Gurney Defined Benefit Pension Scheme) for some salaried employees and supervisory foremen. The assets of the scheme are held separately from those of the Group and are invested in managed funds.

The pension cost relating to the scheme is assessed in accordance with the advice of a qualified actuary on the basis of valuations at each reporting date using the projected unit method. The pension charge for the year was £0.9 million (2009: £1.4 million).

The most recent full triennial valuation was carried out at 1 April 2008. The ongoing valuation assumed, in assessing pension costs, that the return on the scheme's pre-retirement investments would exceed by 2.85 per cent. the rate at which wages and salaries would increase. Future pensions that are due to increase by the maximum of RPI and 5 per cent. each year were assumed to increase at the rate of 3.3 per cent. per annum. The employer's contribution rate as recommended by the actuary was 10.9 per cent. of Pensionable Salary per annum in respect of future accrual of benefits, 1.0 per cent. of Pensionable Salary per annum in respect of death in service benefits, plus Scheme expenses (including levies). The scheme's assets were greater than the scheme's technical provisions at the valuation date, and therefore there was no need to establish a recovery plan to make up any shortfall. The average contribution rate by the employees is 6.7 per cent.

The Company has opted to recognise all actuarial gains and losses immediately as Other Comprehensive Income (formerly known as the Statement of Recognised Income and Expense, *SORIE*).

A full actuarial valuation was carried out as at 31 March 2008, and this was updated to 31 March 2010 by a qualified independent actuary on an IAS 19 basis. The major assumptions used by the actuary were as follows:

	2010	2009
	<i>per cent.</i>	
Discount rate	5.61	6.34
Inflation assumption	3.60	2.90
Rate of increase in salaries	4.35	3.65
Rate of increase in pensions in payment – pre-1997	Nil	Nil
– post-1997	3.30	2.90
– post-2006	2.15	2.30
Overall expected return on plan assets	5.72	5.49

The mortality assumptions used as at 31 March 2010 are based on standard tables produced by the actuarial profession, adjusted for scheme experience.

	2010	2009
Death in service/deferment	AXC00	AXC00
Death after retirement – Non-Pensioners	PXCA00 qx 110%(m) 112%(f). MC projections from 2002 s.t. floors of 0.5% pa	PXCA00
– Pensioners	PXCA00 qx 110%(m) 112%(f). MC projections from 2002 s.t. floors of 0.5%pa	PXCA00
Life expectancy at 65:		
Male currently 65	21	21
Male currently 45	22	22
Female currently 65	23	23
Female currently 45	24	24

The Scheme's net pension liability and expected rate of return on its investments as at 31 March 2010 and as at 31 March 2009 are as follows:

The assets in the scheme and the expected rates of return were:

	<i>Long-term expected rate of return (pa) per cent.</i>	<i>2010 Fair value (£m)</i>	<i>Long-term expected rate of return (pa) per cent.</i>	<i>2009 Fair value (£m)</i>
Equities	7.25	15.7	7.25	10.2
Bonds – Corporate	5.61	12.1	6.34	9.4
Bonds – Government	4.50	16.5	4.20	15.5
Cash and other	0.50	0.6	0.50	1.6
Property	6.00	3.3	6.00	2.9
Annuities	5.61	0.8	6.34	0.8
Total market value of assets		49.0		40.4
Present value of funded retirement benefit obligations		(50.1)		(40.3)
(Deficit)/surplus in the scheme		(1.1)		0.1
Less: related deferred tax liability		0.3		–
Net pension (liability)/asset		(0.8)		0.1

The actual return on plan assets was £9.8 million (2009: £4.5 million).

The expected rate of return on scheme assets was determined as the weighted average of the expected returns on the assets held by the scheme on 31 March 2010. The rates of return for each class were determined as follows:

- equities and property: the rate adopted is consistent with the median assumption used in the actuary's asset modelling work as at 31 March 2007.
- bonds: the overall rate has been set to reflect the yields available on the gilts and Grade AA corporate bond holdings held at 31 March 2010.

Reconciliation of opening and closing balances of the fair value of plan assets

<i>Change in the fair value of scheme assets</i>	<i>2010 (£m)</i>	<i>2009</i>
Fair value at the beginning of the year	40.4	43.4
Expected return on scheme assets	2.2	2.6
Contributions by employers	1.0	1.8
Contributions by members	0.6	0.7
Benefits paid	(2.8)	(1.0)
Actuarial gain/(loss)	7.6	(7.1)
Fair value of plan assets at the end of the year	49.0	40.4

The Group expects to pay contributions of £1.0 million in the year ended 31 March 2011, plus Scheme expenses and levies as they fall due.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

<i>Change in the present value of the defined benefit obligation</i>	<i>2010</i>	<i>2009</i>
	<i>(£m)</i>	
Present value of the obligation at the beginning of the year	(40.3)	(42.6)
Company's service cost	(0.9)	(1.4)
Interest cost	(2.5)	(2.7)
Contributions by members	(0.6)	(0.7)
Benefits paid	2.8	1.0
Actuarial (loss)/gain	(8.9)	6.1
Curtailments and settlements	0.3	–
Present value of the obligation at the end of the year	<u>(50.1)</u>	<u>(40.3)</u>

The amount charged to earnings before interest and tax, and included within cost of sales and administration costs, is:

	<i>2010</i>	<i>2009</i>
	<i>(£m)</i>	
Current service cost, less employee contributions	<u>(0.9)</u>	<u>(1.4)</u>
Total charge	<u>(0.9)</u>	<u>(1.4)</u>

Other finance costs are:

	<i>2010</i>	<i>2009</i>
	<i>(£m)</i>	
Expected return on pension scheme assets	2.2	2.6
Interest on pension scheme liabilities	(2.5)	(2.7)
Curtailments and settlements	0.3	–
Net income	<u>–</u>	<u>(0.1)</u>

The amount recognised in the statement of comprehensive income is:

	<i>2010</i>	<i>2009</i>
	<i>(£m)</i>	
Actual return less expected return on pension scheme assets	7.6	(7.1)
Experience losses arising on the scheme liabilities	–	(1.2)
Changes in the assumptions underlying the present value of the scheme liabilities	(8.9)	7.3
Actual loss recognised in comprehensive income	<u>(1.3)</u>	<u>(1.0)</u>

	<i>2010</i>	<i>2009</i>
	<i>(£m)</i>	
Surplus in scheme at beginning of year	0.1	0.8
Movement in year:		
Current service cost	(0.9)	(1.4)
Contributions by employers	1.0	1.8
Other finance expense	(0.3)	(0.1)
Curtailments and settlements	0.3	–
Net actuarial losses	(1.3)	(1.0)
(Deficit)/surplus in scheme at end of year	<u>(1.1)</u>	<u>0.1</u>

History of experience gains and (losses) are:

	2010	2009	2008 (£m)	2007	2006
Present value of the defined benefit obligation	49.0	40.4	43.4	41.4	35.4
Fair value of scheme assets	(50.1)	(40.3)	(42.6)	(41.4)	(38.9)
Net (deficit)/asset	(1.1)	0.1	0.8	–	(3.5)
Difference between expected and actual return on scheme assets					
Amount (£m)	7.6	(7.1)	(1.9)	(1.1)	3.9
Percentage of scheme assets	15.5%	(17.6)%	(4.4)%	(2.7)%	11.1%
Experience gains/(losses) arising on liabilities					
Amount (£m)	–	(1.2)	1.8	(0.5)	(1.7)
Percentage of scheme liabilities	0%	(3.0)%	4.2%	(1.3)%	(4.3)%
Total actuarial losses recognised in comprehensive income					
Amount (£m)	(1.3)	(1.0)	–	(0.9)	(2.1)
Percentage of scheme assets	(2.7)%	(2.5)%	0%	2.3%	5.3%

The cumulative actuarial gains and losses recognised in the statement of comprehensive income was a loss of £5.6 million (2009: a cumulative loss of £4.4 million).

28 Contingent liabilities

- (a) The Company has given an unlimited guarantee, secured by fixed and floating charges over the Company's assets in respect of the facilities from Bank of Scotland, of all Group companies. At 31 March 2010, the net indebtedness of all other Group companies amounted to £nil (2009: £nil).
- (b) The Company has given joint and several guarantees securing indemnities given by other Group companies in respect of performance bonds which have been put in place to provide security for clients. These performance bonds are not exercisable on demand. At 31 March 2010, indemnities outstanding for other Group companies amounted to £3.9 million (2009: £4.6 million).

29 Group undertakings

The Group undertakings, all of which are included within the Group financial statements, at 31 March 2010:

	Activity	Percentage of equity owned
Subsidiary undertakings		
May Gurney Group Limited	– Dormant intermediate holding company	100
May Gurney Limited	– Infrastructure support services	+100
May Gurney Estates Limited	– Property holding and development	+100
May Gurney Recycling CIC	– Collection and sale of recyclable materials	*100
North Lincolnshire Learning Partnership (PSP) Limited	– Dormant intermediate holding company	*52
Engage North Lincolnshire Limited	– Facility services for the education sector	***80
ECT Engineering Limited	– Dormant	*100
Recycle from Home Limited	– Dormant	***100
Lambeth Community Recycling Limited	– Dormant	***100

	<i>Activity</i>	<i>Percentage of equity owned</i>
Materials Reuse and Recycling Limited	– Dormant	***100
May Gurney Building Limited	– Dormant	*100
AC Chesters & Sons Limited	– Dormant	*100
FDT (Holdings) Limited	– Dormant	*100
FDT Associates Limited	– Dormant	**100
FDT Contracts Limited	– Dormant	**100
Norfolk Community Recycling Services Limited	– Dormant	*100
T Cartledge Limited	– Dormant	*100
TJ Brent Limited	– Dormant	*100
Ayton Asphalte Company Limited	– Dormant	+100
May Gurney Norfolk Limited	– Dormant	+100
May Gurney (Regional) Limited	– Dormant	+100
May Gurney (Technical Services) Limited	– Dormant	+100
May Gurney Group Trustees Limited	– Dormant	+100
Essex Highway Contracts Limited	– Dormant	*100
Michco 210 Limited	– Dormant	*100
Engineered Products Limited	– Dormant	*100
Hawthorns Project Management Limited	– Dormant	*100
Associated undertakings		
Resource Environmental Limited	– Collection and sale of recyclable materials	*50
Jointly controlled entities		
DAWN Environmental Limited	– Collection and sale of recyclable materials	*50
Monmouthshire Community Recycling Limited	– Operation of a kerbside recycling scheme	*50
Jointly controlled operations		
May Gurney WSO JV	– Highways maintenance	*50
Lafarge Contracting/May Gurney JV	– Civil Engineering	*50

Notes:

+ held by May Gurney Group Limited

* held by May Gurney Limited

** held by FDT (Holdings) Limited

*** held by May Gurney Recycling CIC

**** held by North Lincolnshire Learning Partnership (PSP) Limited

The shareholdings in subsidiaries, associates and jointly controlled entities all relate to ordinary share capital and are equivalent to the percentages of voting rights held by the Group.

The percentages quoted in respect of the jointly controlled operations are the Group's interests under the joint operation contracts. The joint operations' principal places of business are:

MGWSP, Riverside House, Northampton, Northamptonshire;

Lafarge Contracting/May Gurney, Bradgate House, Groby, Leicester.

30 Reconciliation of operating profit before amortisation and non-recurring income to cash generated from operations

	<i>For the year ended 31 March</i>			
	<i>2010 Group</i>	<i>2010 Company (£m)</i>	<i>2009 Group</i>	<i>2009 Company</i>
Operating profit/(loss) before amortisation and non-recurring items	22.1	(2.3)	20.5	(2.1)
Depreciation	6.7	–	6.7	–
Profit on sale of property, plant and equipment	(0.2)	–	(0.2)	–
Increase in inventories	(0.3)	–	(0.1)	–
Increase in trade and other receivables	(3.0)	–	(2.1)	–
Increase/(decrease) in trade and other payables	5.1	(11.7)	0.1	12.3
Credit in respect of retirement and benefit costs	(0.1)	(0.1)	(0.4)	(0.4)
Charges in respect of share-based payments in the period	0.4	–	0.4	–
Cash generated from operations	<u>30.7</u>	<u>(14.1)</u>	<u>24.9</u>	<u>9.8</u>

Cash and cash equivalents (which are presented as a single class of assets on the face of the statement of financial position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

31 Related party transactions

Key management remuneration

	<i>For the year ended 31 March</i>	
	<i>2010 Group</i>	<i>2009 Group</i>
	<i>(£m)</i>	
Short-term employee benefits	2.2	2.4
Post-employment benefits	0.1	0.2
Share-based payments	0.2	(0.2)
	<u>2.5</u>	<u>2.4</u>

Transactions with subsidiary undertakings

Transactions between the Company and its subsidiaries, which are related parties of the Company, are noted below.

Transactions with jointly controlled entities and jointly controlled operations

During the year the Group made sales to and purchases from its jointly controlled entities and arrangements. These were normal trading transactions, conducted on an arm's length basis and on normal commercial terms. The amounts involved individually and in aggregate are not considered to be material either financially or generally to users of these financial statements.

Other related party transactions

David Galloway and Ishbel Macpherson, non-executive directors of the Company, were also non-executive directors of Speedy Hire plc (David Galloway until 31 May 2009). The Group makes purchases from Speedy Hire companies on an arm's length basis in the normal course of business. During the year, the value of purchases from Speedy Hire companies was £1.4 million (2009: £1.2 million) and a balance of £0.1 million (2009: £0.2 million) was owed at the end of the year.

Tim Ross, non-executive director of the Company, was also a non-executive director of Ennstone plc in the year ended 31 March 2010. The Group makes purchases from Ennstone companies on an arm's length basis in the normal course of business. During the year, the value of purchases from Ennstone companies was £1.3 million (2009: £2.8 million) and a balance of £0.5 million (2009: £0.2 million) was owed at the end of the year.

Company

Included within trade and other payables are amounts owed to 100 per cent. subsidiary undertakings of the Company of £22.9 million (2009: £33.3 million).

During the year ended 31 March 2010 there were transactions totalling £0.9 million between the Parent Company and its subsidiary undertakings (2009: £0.6 million). All of these transactions, and the year end reporting amounts arising from these transactions were conducted on an arm's length basis and on normal commercial terms. In addition, the Company received £4.5 million (2009: £4.6 million) net from its subsidiary undertakings from investments in short-term bank deposits.

PART B:

MAY GURNEY AUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2011

Independent auditor's report to the Members of May Gurney Integrated Services PLC

We have audited the financial statements of May Gurney Integrated Services PLC for the year ended 31 March 2011 which comprise the group income statement, the group statement of comprehensive income, the group and parent company statements of changes in equity, the group and parent company statements of financial position, the group and parent company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act. 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

As explained more fully in the directors' responsibilities statement set out on page 46, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act.

Opinion on other matter prescribed by the Companies Act

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns;
or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Philip Westerman
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London, United Kingdom
31 May 2011

Consolidated income statement of the May Gurney Group for the year ended 31 March 2011

<i>For the year ended 31 March 2011</i>	<i>Note</i>	<i>2011</i>		<i>2010</i>		<i>2010 Total</i>	
		<i>Before non-recurring items and amortisation</i>	<i>2011 Non-recurring items and amortisation</i>	<i>Before non-recurring items and amortisation</i>	<i>2010 Non-recurring items and amortisation</i>		
				<i>2011 Total</i>			
				<i>(£m)</i>			
Group revenue	4	571.4	–	571.4	483.1	–	483.1
Cost of sales		(513.4)	–	(513.4)	(434.0)	–	(434.0)
Gross Profit		58.0	–	58.0	49.1	–	49.1
Administrative expenses		(32.9)	–	(32.9)	(27.0)	–	(27.0)
Group operating profit before amortisation and non-recurring items	2	25.1	–	25.1	22.1	–	22.1
Other expenses							
– Intangible assets amortisation	13	–	(2.1)	(2.1)	–	(3.2)	(3.2)
– Other non-recurring costs	3	–	(3.4)	(3.4)	–	–	–
Operating profit		25.1	(5.5)	19.6	22.1	(3.2)	18.9
Finance income	5	0.4	–	0.4	0.4	–	0.4
Finance costs	5	(1.2)	–	(1.2)	(0.9)	–	(0.9)
Profit before taxation		24.3	(5.5)	18.8	21.6	(3.2)	18.4
Taxation	8	(6.9)	1.4	(5.5)	(6.2)	0.9	(5.3)
Profit for the year from continuing operations attributable to the equity holders of the parent		17.4	(4.1)	13.3	15.4	(2.3)	13.1
Earnings per share (in pence)	10						
Total and from continuing operations							
Basic earnings per share				19.82p			19.58p
Diluted earnings per share				19.34p			19.25p

Consolidated statement of comprehensive income of the May Gurney Group for the year ended

	<i>Note</i>	<i>2011</i>	<i>2010</i>
		<i>(£m)</i>	
Profit for the year		<u>13.3</u>	<u>13.1</u>
Actuarial gains/(losses) on defined benefit pension schemes	28	0.9	(1.3)
Tax on actuarial (gains)/losses on defined benefit pension schemes		<u>(0.2)</u>	<u>(0.4)</u>
Other comprehensive income/(loss) for the year		<u>0.7</u>	<u>(0.9)</u>
Total comprehensive income for the year attributable to equity holders of the parent		<u>14.0</u>	<u>12.2</u>

Consolidated statement of changes in equity of the May Gurney Group for the year ended

	<i>Share capital</i>	<i>Share premium account</i>	<i>Merger relief reserve</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total equity</i>
	(<i>£m</i>)					
Balance at 31 March 2009 and 1 April 2009	3.5	13.2	1.9	1.4	43.5	63.5
Profit for the year	–	–	–	–	13.1	13.1
Other comprehensive income:						
Actuarial losses on defined benefit pension schemes	–	–	–	–	(1.3)	(1.3)
Tax on actuarial losses on defined benefit pension schemes	–	–	–	–	0.4	0.4
Total comprehensive income for the year	–	–	–	–	12.2	12.2
Proceeds from disposal of own shares	–	–	–	0.1	–	0.1
Taxation on share sales	–	–	–	(0.1)	–	(0.1)
Share-based payments – income statement charge	–	–	–	–	0.4	0.4
Share-based payments – deferred tax relief on future exercise	–	–	–	–	0.8	0.8
Transactions with owners – dividends paid	–	–	–	–	(3.5)	(3.5)
Balance at 31 March 2010 and 1 April 2010	3.5	13.2	1.9	1.4	53.4	73.4
Profit for the year	–	–	–	–	13.3	13.3
Other comprehensive income:						
Actuarial gains on defined benefit pension schemes	–	–	–	–	0.9	0.9
Tax on actuarial gains on defined benefit pension schemes	–	–	–	–	(0.2)	(0.2)
Total comprehensive income for the year	–	–	–	–	14.0	14.0
Share-based payments – income statement charge	–	–	–	–	0.3	0.3
Share-based payments – deferred tax relief on future exercise	–	–	–	–	0.3	0.3
Transactions with owners – dividends paid	–	–	–	–	(3.9)	(3.9)
Balance at 31 March 2011	3.5	13.2	1.9	1.4	64.1	84.1

Consolidated balance sheet of the May Gurney Group as at 31 March 2011

	<i>Note</i>	<i>2011</i>	<i>2010</i>
		<i>(£m)</i>	
Non-current assets			
Property, plant & equipment	11	39.2	25.7
Goodwill	12	42.1	35.2
Other intangible assets	13	11.4	5.6
Deferred tax asset	15	0.9	1.1
		<hr/>	<hr/>
		93.6	67.6
Current assets			
Inventories	16	4.4	2.7
Trade and other receivables	17	110.4	81.4
Cash and cash equivalents	18	36.2	43.4
		<hr/>	<hr/>
		151.0	127.5
		<hr/>	<hr/>
		244.6	195.1
		<hr/>	<hr/>
Total assets			
Current liabilities			
Trade and other payables	19	(132.7)	(105.2)
Current tax liabilities		(2.0)	(1.1)
Obligations under finance leases	21	(7.3)	(5.6)
		<hr/>	<hr/>
		(142.0)	(111.9)
Non-current liabilities			
Retirement benefit obligations	28	(0.4)	(1.1)
Obligations under finance leases	21	(18.0)	(8.6)
Provisions	22	(0.1)	(0.1)
		<hr/>	<hr/>
		(18.5)	(9.8)
		<hr/>	<hr/>
		(160.5)	(121.7)
		<hr/>	<hr/>
Net assets			
		84.1	73.4
		<hr/>	<hr/>
Equity			
Share capital	23	3.5	3.5
Share premium account	25	13.2	13.2
Merger relief reserve	25	1.9	1.9
Other reserves	25	1.4	1.4
Retained earnings	25	64.1	53.4
		<hr/>	<hr/>
Total equity		84.1	73.4
		<hr/>	<hr/>

These financial statements were approved by the Board on 31 May 2011.

Philip Fellowes-Pryne

Director

Company registration number 4321657

Consolidated cash flow statement for the year ended 31 March 2011

	<i>Note</i>	<i>2011</i>	<i>2010</i>
		<i>(£m)</i>	
Cash flows from operating activities			
Group operating profit before amortisation and non-recurring costs		25.1	22.2
Non-cash items		9.2	6.8
Working capital movement		(5.7)	1.8
Cash generated from operations	31	28.6	30.7
Non-recurring business closure costs		(1.5)	–
Corporation tax paid		(5.2)	(5.3)
Interest received		0.4	0.4
Interest paid		(1.2)	(0.9)
Net cash received from operating activities		21.1	24.9
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(16.8)	(12.3)
Proceeds from sale of property, plant and equipment		1.4	2.0
Payments to acquire intangible assets	13	(2.9)	–
Acquisition of subsidiaries and overdraft acquired	27	(15.9)	–
Net cash used in investing activities		(34.2)	(10.3)
Cash flows from financing activities			
Proceeds from sale of own shares by ESOT	25	–	0.1
Ordinary dividends paid	9	(3.9)	(3.5)
New finance leases		16.7	4.1
Payment of finance lease obligations		(6.9)	(5.5)
Loan notes paid		–	(0.6)
Net cash received from/(used in) financing activities		5.9	(5.4)
(Decrease)/increase in cash and cash equivalents		(7.2)	9.2
Opening cash and cash equivalents		43.4	34.2
Closing cash and cash equivalents		36.2	43.4
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash and cash equivalents		(7.2)	9.2
(Increase)/decrease in finance leases		(9.8)	1.4
Acquired debt		(1.3)	–
(Decrease)/increase in net funds in the year		(18.3)	10.6
Opening net funds		29.2	18.6
Closing net funds		10.9	29.2

Statement of accounting policies for the May Gurney Group accounts

Nature of operations

The principal activities of the Group during the year were infrastructure support services. The Group is incorporated and domiciled in the United Kingdom and is listed on the Alternative Investment Market. The registered office is at the Group office in Trowse, Norwich, UK. The presentation currency used is GB Pound sterling and figures are quoted in millions, rounded to the nearest £100,000.

The principal accounting policies adopted in the presentation of these consolidated and Company financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with parts of the Companies Act applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments, which are recognised using accounting policies as set out below and applied consistently.

Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 April 2010.

Changes in accounting policy

IAS 27 “Consolidated and separate financial statements (revised 2008)” and IFRS 3 “Business combinations (revised 2008)” include revisions relating to the accounting for acquisitions. The principal change in accounting policy is that attributable transaction costs relating to business acquisitions which complete on or after 1 April 2010 are expensed in the income statement in the period incurred. Previously such costs would have been capitalised as part of goodwill relating to the acquisition. Any changes to the consideration transferred, including contingent consideration, resulting from events after the date of the acquisition are recognised in the income statement. In addition, the term “non-controlling interest” has been introduced to replace the term “minority interest”. The revisions to IAS 27 and IFRS 3 have reduced profit for the year by £1.5 million being transaction costs relating to business acquisitions.

IFRIC 15 “Agreements for the construction of real estate”; IFRIC 17 “Distributions of non-cash assets to owners”; IFRIC 18 “Transfers of assets from customers”; IAS 39 (amendment) “Financial instruments: Recognition and measurement: Eligible hedged items”; Amendments to IFRS 2 “Group cash-settled share-based payment transactions”; IAS 28 “Investment in associates (revised 2008)”; and IAS 31

“Interests in joint ventures” also came into effect and were adopted in the current period but had no effect on the financial statements.

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

IFRS 9 “Financial Instruments”; IAS 24 “Related party disclosures (revised 2009)”; IFRIC 19 “Extinguishing financial liabilities with equity instruments”; and IAS 32 (amendment) “Financial instruments: Presentation”.

The May Gurney Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group, with the exception of IFRS 9 which has not yet been finalised and so the May Gurney Directors are not able to fully assess the potential impact.

Consolidation

Subsidiaries

Subsidiaries are consolidated from the date on which control is transferred to the Group and deconsolidated from the date at which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the consideration. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable assets and liabilities acquired is recognised as goodwill.

The Group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 31 March 2011. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through more than half of the voting rights.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Jointly controlled operations

The Group has certain contractual operations with other participants to engage in joint operations that do not create an entity carrying on a trade or business of its own. The Group includes its share of assets, liabilities and cash flows in such jointly controlled operations, measured in accordance with the terms of each operation, which is usually *pro rata* to the Group's interest in the risks in the jointly controlled operation.

Jointly controlled entities

A jointly controlled entity is an entity in which the Group holds a long-term interest and which is jointly controlled by the Group and one or more other venturers under a contractual arrangement. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of post-acquisition profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Due to the amounts involved not being significant, they are not separately disclosed.

Inter-company transactions, balances and unrealised gains on transactions between Group companies have been eliminated on consolidation.

A separate income statement has not been presented for May Gurney Integrated Services PLC as exempted by Section 408 of the Companies Act. The profit after tax of the Company in the year was £3.6 million (2010: £8.5 million).

The Group has taken advantage of the exemption under regulation 7 of the Partnerships (Accounts) Regulations 2008 that members of a qualifying partnership do not have to publish partnership accounts if the partnership is dealt with on a consolidated basis in group accounts prepared by a parent undertaking of the member. May Gurney WSP JV partnership has been consolidated within these group accounts.

Goodwill and other intangible assets

Goodwill arising on consolidation represents the excess of the fair value 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 intangible asset and is reviewed for impairment annually. It is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing along the lines of the Group's operating segments. Any impairment is recognised immediately in the income statement.

Other intangible assets, which consist of acquired order book, customer relationships, trade marks and software development costs, are stated at cost less accumulated amortisation and impairment losses. Amortisation is based on cost and the useful economic lives of these assets. Details of these useful economic lives are included in Note 13.

Costs associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the group, and that will probably generate economic benefits beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised over their estimated useful life. The MGConnect™ costs capitalised in the year are amortised over a period of four years.

Impairment

Assets that have an indefinite useful life are not subject to amortisation and are reviewed for impairment annually and when there are indications that the carrying value may not be recoverable. Assets that are subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Company investments in subsidiary undertakings

Company investments are included at cost. Provision is made for any impairment in value.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business net of Value Added Tax.

Sales of goods are recognised when goods are delivered and title has passed.

Contract revenue reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract.

Where the outcome of a long-term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

In the case of a cost plus contract, the outcome of a contract can be estimated reliably when it is probable that the economic benefits associated with the contract will flow to the Group, and the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

Property, plant and equipment

Property, plant and equipment is stated at historic cost to the Group, being its purchase cost together with any incidental expenses of acquisition.

Depreciation of property, plant and equipment is calculated so as to write off their cost over their expected economic lives, residual values are reassessed on an annual basis. The principal annual rates of depreciation are as follows:

Freehold land	–	not depreciated
Freehold buildings	–	between 5 and 50 years straight line
Short leasehold property	–	10 per cent. straight line or life of lease if shorter
Plant, vehicles and equipment	–	between 10 per cent. and 33 per cent. straight line

Inventories and work in progress on construction contracts

Inventories are valued at the lower of cost and net realisable value. The cost of purchase is determined by means of the weighted average cost formula.

Contract work in progress is valued at cost plus attributable profit less foreseeable losses. Attributable profit is included when the outcome of a contract can be assessed with reasonable certainty. The excess of book value over amounts received on individual contracts is included in current trade receivables and payments received in excess of book value are included in current trade payables.

Non-recurring items

Material and non-recurring items of income and expense are disclosed in the income statement as “Non-recurring items”. Examples of items which may give rise to disclosure as “Non-recurring” include *inter alia* gains or losses on the disposal of businesses, investments and property, plant and equipment, costs of restructuring and reorganisation of existing businesses and asset impairments.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax payable in respect of the year is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates and laws that have been enacted or substantially enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition of other assets and liabilities (other than in a business combination) in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date.

Deferred tax is calculated based on the laws enacted or substantially enacted by the reporting date and at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

The financial instruments used by the Group comprise net funds, trade receivables and trade payables.

- (a) Loans and receivables do not carry any interest and are initially stated at their fair value and subsequently measured at amortised cost as reduced by appropriate allowance for estimated irrecoverable amounts.
- (b) Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.
- (c) Trade payables are not interest bearing and are initially stated at their fair value and subsequently measured at amortised cost.
- (d) Loans are raised for support of long-term funding of the Group's operations. They are recognised at fair value on inception. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement using an effective interest method.
- (e) Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities.
- (f) Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.
- (g) The Group has a policy of not trading in financial instruments and thus the only risks arising, in the normal course of business, are interest rates and liquidity. The Group's foreign currency risk is minimal as the volume of foreign currency transactions is not significant. The Group currently has no derivative instruments and sees no immediate requirement for any.

Accounting for financial assets

Financial assets consist of receivables, along with cash and cash equivalents.

An assessment of whether a financial asset is impaired is made at least at each reporting date. For receivables, this is based on the latest credit information available, i.e. recent counterparty defaults and external credit ratings. Financial assets that are substantially past due are also considered for impairment. All income and expense relating to financial assets are recognised in the income statement line item "finance costs" or "finance income", respectively.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Group's trade and other receivables fall into this category of financial instruments.

Individual receivables are considered for impairment when they are past due at the reporting date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry of a counterparty. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Accounting for financial liabilities

The Group's financial liabilities include borrowings, trade and other payables (including finance lease liabilities), which are measured at amortised cost using the effective interest rate method.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line items "finance costs" or "finance income".

For business combinations, any changes to the consideration transferred, including contingent consideration, resulting from events after the date of the acquisition are recognised in the income statement.

Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. Assets held under finance leases are recognised as assets of the Group at the lower of their fair value or the present value of the minimum lease payments and the capital elements of the commitments are shown as obligations under finance leases. Payments are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and their useful lives.

All other leases are regarded as operating leases and the related payments are charged to the income statement on a straight-line basis over the lease term.

Share-based payments

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2005 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair value of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled, share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to equity.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

Employee benefits

The Group and Company contribute to eight defined contribution pension schemes and a defined benefit pension scheme, the assets of which are held separately from those of the Group and are invested in managed funds.

In respect of the defined benefit pension scheme, the cost of providing benefits is determined using the projected unit method, with actuarial valuations being carried out at each reporting date. Hence actuarial gains and losses are recognised in full in the period in which they occur through the statement of comprehensive income. The liability recognised in the statement of financial position is the present value of the defined benefit obligations less the fair value of plan assets. Associated interest credits are included within finance income and charges within finance costs. The current service cost incurred during the year to provide retirement benefits to employees is charged to operating profit.

In respect of the defined contribution pension schemes, the contributions paid by the Group, Company and the employees are invested within the individual funds in the month following the month of deduction. The employer contribution rates are determined by reference to an age, service or grade related scale or are at a fixed, level percentage. The amounts contributed by the Group and Company are charged to the income statement as the contributions fall due. Certain contracts require that employees transfer with protected pension rights and the Group and Company are responsible for the pension liability that exists.

May Gurney Group Limited Employee Share Ownership Trust (“ESOT”) and Employee Benefit Trust (“EBT”)

On 28 March 2008, May Gurney Group Trustees Limited, acting in its capacity as trustee of the ESOT, transferred 1,783,324 ordinary shares by way of a gift for £nil consideration to Lloyds TSB Offshore Trust Company Limited acting in its capacity as trustee of the May Gurney Integrated Services PLC Employee Benefit Trust (EBT), an offshore trust.

Shares in the Company held by the ESOT and EBT are shown as a deduction in arriving at equity funds.

Where the purchase of shares by the ESOT/EBT is financed by external bank loans, these loans are shown within current trade and other payables. Other current assets, liabilities and reserves of the ESOT/EBT are included within the statutory headings to which they relate. The ESOT/EBT are included within the Company financial statements. The ESOT/EBT have been accounted for in line with the requirements of SIC 12 which states that the Company should consolidate all Special Purpose Entities of which the ESOT/EBT are classified as such.

Significant accounting estimates and judgements

To be able to prepare accounts according to generally accepted accounting principles, management must make estimates and assumptions that affect the asset and liability items and revenue and expense amounts recorded in the financial statements. These estimates are based on historical experience and various other assumptions that management and the Board believe are reasonable under the circumstances. The results of this form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources.

Areas requiring estimates that may significantly impact on the Group’s earnings and financial position are as follows:

(a) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy previously stated. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Further details of the estimates used are set out in Note 12.

Areas requiring critical judgement that may significantly impact on the Group’s earnings and financial position are as follows:

(b) *Revenue recognition*

The Group uses the percentage-of-completion method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract.

(c) *Pension benefits*

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 28.

(d) *Share-based payments*

The weighted average fair value of options granted during the period was determined using the Trinomial pricing model. The assumptions used are detailed in Note 24.

(e) *Intangible assets*

The Group recognises certain intangible assets on acquisition. Judgements in respect of useful lives, discount rates and valuation methods affect the carrying value and amortisation charges in respect of these assets. These judgements are shown in Note 13.

(f) *Impairment of work in progress*

In assessing whether work in progress is impaired, estimates are made of future sales revenue, timing and build costs. The Group has controls in place to ensure that estimates of sales revenue are consistent, and external valuations are used where appropriate.

Dividends

Dividends are recognised in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recognised in the period in which they are approved and paid.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. When recognising and measuring a provision, events occurring after the reporting date, and before authorisation for issue, are considered to determine whether such events provide additional evidence of conditions that existed at the reporting date and should therefore be adjusted for.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the report and accounts

1 Segmental analysis

For management purposes, the Group is currently organised into three segments – Public Sector Services (Highways Services, Environmental Services and Facility Services), Regulated Sector Services (Utility Services, Rail Services and Waterways Services) and Property. The three segments noted are those that are regularly reviewed by the Group’s Chief Operating Decision Maker (CODM) Philip Fellowes-Pryne (Chief Executive). Revenue is mostly derived from contract work.

The identification of these reportable segments has come about due to the Group’s aim of aligning services more closely with the needs of its long-term clients and the nature of the work the Group delivers for them, namely delivering essential front-line maintenance and enhancement services.

	<i>For the year ended 31 March 2011</i>			
	<i>Public Sector Services</i>	<i>Regulated Sector Services</i>	<i>Property</i>	<i>Group</i>
	<i>(£m)</i>			
Revenue				
Total revenue	377.7	196.6	–	574.3
Less: between segments	(1.4)	(1.5)	–	(2.9)
External revenue	<u>376.3</u>	<u>195.1</u>	<u>–</u>	<u>571.4</u>
Sales between segments are charged at prevailing market prices.				
Result per management information reviewed by the CODM				
Group operating profit before amortisation and non-recurring costs	17.3	7.8	–	25.1
Intangible assets amortisation	(1.4)	(0.7)	–	(2.1)
Non-recurring costs	–	(3.4)	–	(3.4)
Finance income				0.4
Finance costs				(1.2)
Profit before taxation				<u>18.8</u>
Taxation				<u>(5.7)</u>
Profit for the year per management information				<u>13.1</u>
Taxation adjustment				<u>0.2</u>
Profit for the year per statutory accounts				<u>13.3</u>
Segment assets and liabilities				
Total assets				
Segments	117.7	105.1	11.8	234.6
Not allocated to segments				<u>10.0</u>
Total liabilities				<u>244.6</u>
Segments	(86.7)	(63.6)	(0.6)	(150.9)
Not allocated to segments				<u>(9.6)</u>
				<u>(160.5)</u>
Other Information				
Capital expenditure including acquisitions	15.8	7.8	–	23.6
Depreciation	<u>7.2</u>	<u>1.6</u>	<u>–</u>	<u>8.8</u>

As the Group’s activities are almost entirely domestic, no geographical segmental analysis is required.

One customer (2010: one) in the Regulated Sector Services segment accounted for 12 per cent. of total revenue (2010: 13 per cent.).

	<i>For the year ended 31 March 2010</i>			
	<i>Public Sector Services</i>	<i>Regulated Sector Services</i>	<i>Property</i>	<i>Group</i>
	<i>(£m)</i>			
Revenue				
Total revenue	285.3	200.8	–	486.1
Less: between segments	(1.6)	(1.4)	–	(3.0)
External revenue	<u>283.7</u>	<u>199.4</u>	<u>–</u>	<u>483.1</u>
Sales between segments are charged at prevailing market prices				
Result				
Group operating profit before amortisation	14.7	7.4	–	22.1
Intangible assets amortisation	(1.7)	(1.5)	–	(3.2)
Finance income				0.4
Finance costs				(0.9)
Profit before taxation				<u>18.4</u>
Taxation				(5.7)
Profit for the year per management information				<u>12.7</u>
Taxation adjustment				0.4
Profit for the year per statutory accounts				<u>13.1</u>
Segment assets and liabilities				
Total assets				
Segments	98.6	77.1	11.8	187.5
Not allocated to segments				7.6
				<u>195.1</u>
Total liabilities				
Segments	(69.3)	(47.9)	(1.0)	(118.2)
Not allocated to segments				(3.5)
				(121.7)
Other Information				
Capital expenditure including acquisitions	9.9	2.4	–	12.3
Depreciation	<u>5.3</u>	<u>1.3</u>	<u>0.1</u>	<u>6.7</u>

As the Group's activities are almost entirely domestic, no geographical segmental analysis is required.

2 Consolidated May Gurney Group operating profit before amortisation and non-recurring items

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>(£m)</i>	
Depreciation (Note 11) – owned	3.9	3.1
– finance lease and hire purchase	4.9	3.6
Profit on sale of plant and machinery	(0.2)	(0.3)
Loss on sale of freehold land and buildings	0.1	0.1
Directors' emoluments (Note 7)	0.9	1.1
Share-based payments	(0.3)	(0.4)
Fees payable to the Company's auditor for the audit of the annual accounts	–	–
Fees payable to the Company's auditor and its associates for other services		
– audit of the Company's subsidiaries	0.1	0.1
– tax advisory and compliance services	–	–
– corporate finance services	–	–
Amounts payable under operating leases		
– land and buildings	2.5	2.2
– plant and machinery	6.2	5.6

3 Other non-recurring costs

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>(£m)</i>	
Geotechnical business closure costs	1.6	–
Rail fabrication business closure costs	0.3	–
Turriff acquisition costs	1.5	–
	<u>3.4</u>	<u>–</u>

During the year, the Board reached a decision to close the Group's non-core geotechnical and rail fabrication businesses in line with its stated strategy to focus on long-term contracts with clients in the public and regulated sectors.

On 21 January 2011, the Group acquired 100 per cent. of the issued share capital of Turriff Group Limited, one of Scotland's largest utility infrastructure maintenance companies. Further details of the acquisition are disclosed in Note 27.

4 Revenue

The following significant categories of revenue were recognised in the year.

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>(£m)</i>	
Revenue arising from:		
Sale of goods	5.0	4.7
Contract revenue	566.4	478.4
	<u>571.4</u>	<u>483.1</u>

5 Finance income and costs

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>(£m)</i>	
Finance income		
Interest receivable from short-term bank deposits	0.3	0.2
Other interest	0.1	0.2
	<u>0.4</u>	<u>0.4</u>
Finance costs		
Finance charges payable under finance leases	(1.0)	(0.9)
Finance cost in relation to the change in value of financial assets	(0.1)	–
Other interest	(0.1)	–
	<u>(1.2)</u>	<u>(0.9)</u>

6 Staff numbers and costs

The average number of people (including directors) employed by the Group during the year, categorised by segment, was as follows:

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>No employees</i>	
Public Sector Services	3,045	2,350
Regulated Sector Services	1,443	1,309
Group and Shared Services	220	214
	<u>4,708</u>	<u>3,873</u>

The aggregate payroll costs of these employees were:

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>(£m)</i>	
Wages and salaries	128.3	107.9
Social security costs	12.6	10.5
Group pension costs (Note 28)	1.1	0.9
Other pension costs (Note 28)	4.0	3.1
	<u>146.0</u>	<u>122.4</u>

The average number of people (including directors) employed by the Company during the year was eight (2010: eight), with an aggregate payroll cost of £1.1 million (2010: £1.4 million).

Key management remuneration has been disclosed per Note 32.

7 Emoluments of May Gurney Directors

For the year ended 31 March
2011 2010
(£m)

Directors' emoluments	0.9	1.1
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An analysis of directors' emoluments and pension entitlements (including those of the highest-paid director) and their interests in the share capital of the Company is contained in the directors' remuneration report on pages 51 to 56 of the 2011 May Gurney Annual Report and Accounts.

8 Taxation

(A) Analysis of tax charge:

For the year ended 31 March
2011 2010
(£m)

Current tax

Corporation tax on profits for the year	6.2	4.6
Under provision in respect of prior years	0.1	0.9
Total current tax	6.3	5.5

Deferred tax

Origination and reversal of temporary differences	0.4	1.8
Tax effect of intangible assets amortisation	(0.6)	(0.9)
Over provision in respect of prior years	(0.6)	(1.1)
Total deferred tax	(0.8)	(0.2)
Total tax charge for the year	5.5	5.3

(B) Factors affecting the tax charge:

The taxation assessed for the year is higher than the standard rate of corporation tax in the UK (28 per cent.).

The charge is affected by a number of factors in addition to the standard UK rate. The differences are explained as follows:

For the year ended 31 March
2011 2010
(£m)

Profit before tax	18.8	18.4
Profit before tax multiplied by standard rate of corporation tax in the UK of 28 per cent. – expected charge	5.3	5.2
Effects of:		
Expenses not deductible for tax purposes	0.6	0.3
Change in future tax rate	0.1	–
Adjustments to tax charge in respect of previous year (current and deferred)	(0.5)	(0.2)
Total tax charge for year (Note 8(a))	5.5	5.3

The effective tax rate, excluding the impact of non-recurring items, for the year is 28.4 per cent. (2010: 28.8 per cent.).

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes

legislation reducing the main rate of corporation tax from 28 per cent. to 27 per cent. from 1 April 2011. Finance (No 3) Bill was subsequently published on 30 March 2011 which included changes to the corporation tax rates which were passed through a resolution passed on 29 March 2011 to have effect under the Provisional Collection of Taxes Act 1968 modifying the rate of corporation tax from 27 per cent. to 26 per cent. The effect of this change was to reduce the net deferred tax asset provided at 31 March 2011 by £0.1 million, with a corresponding decrease in profit for the year but with no effect on other comprehensive income.

Proposed reductions to the main rate of corporation tax by 1 per cent. per annum to 23 per cent. by 1 April 2014 are expected to be enacted separately each year. As these had not been enacted at the balance sheet date they have not been included in these financial statements. The overall effect of the further proposed changes from 26 per cent. to 23 per cent., if these applied to the net deferred tax balance at 31 March 2011, would be to reduce the net deferred tax asset by approximately £0.1 million.

9 Dividends

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>(£m)</i>	
Amounts recognised as distributions to equity holders in the period:		
Final dividend paid for the year ended 31 March 2010 of 3.7 pence per share	2.5	2.3
Interim dividend paid for the year ended 31 March 2011 of 2.08 pence per share	1.4	1.2
	<u>3.9</u>	<u>3.5</u>

The proposed final dividend of 4.52 pence per share had not been approved at the reporting date and so has not been included as a liability in these financial statements. The dividend will be paid on 11 July 2011 to holders of ordinary shares on the register at the close of business on 10 June 2011.

The Trustee of the May Gurney Group Limited Employee Share Ownership Trust has waived its right to receive any dividends in respect of shares held in the Trust.

10 Earnings per share

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>(£m)</i>	
Profit for the year	13.3	13.1
Basic/diluted earnings	13.3	13.1
Adjustments to basic earnings		
Intangible assets amortisation	2.1	3.2
Other non-recurring costs	3.4	–
Tax on non-recurring items	(1.4)	(0.9)
Underlying earnings	17.4	15.4
<i>Number of shares</i>	<i>Number</i>	<i>Number</i>
Weighted average number of ordinary shares for the purposes of basic earnings per share	67,114,100	66,993,564
Effect of dilutive potential ordinary shares	1,652,921	1,152,022
Weighted average number of ordinary shares for the purposes of diluted earnings per share	68,767,021	68,145,586
Weighted average number of ordinary shares for the purposes of underlying earnings per share	70,236,016	70,236,016
	<i>pence</i>	<i>pence</i>
Underlying earnings per share	24.77	21.92
Basic earnings per share	19.82	19.58
Diluted earnings per share	19.34	19.25

Underlying earnings per share, before non-recurring items, has been disclosed to give a clearer understanding of the Group's underlying trading performance. It has been calculated using the underlying earnings figures above and an adjusted weighted average number of ordinary shares which includes those shares held by the Group Employee Share Ownership Trust.

Diluted earnings per share is the basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the number of options outstanding during the year (see Note 24).

11 Property, plant and equipment

	<i>For the year ended 31 March</i>			<i>Total</i>
	<i>Freehold land and buildings</i>	<i>Short leasehold property (£m)</i>	<i>Plant vehicles and equipment</i>	
Group				
Cost				
At 1 April 2009	3.1	0.5	40.7	44.3
Additions	–	–	12.3	12.3
Disposals	(0.6)	–	(4.3)	(4.9)
At 1 April 2010	2.5	0.5	48.7	51.7
Acquisition of subsidiary undertakings (Note 27)	–	–	6.7	6.7
Additions	–	1.2	15.7	16.9
Disposals	(0.2)	–	(5.6)	(5.8)
At 31 March 2011	2.3	1.7	65.5	69.5
Depreciation				
At 1 April 2009	0.8	0.4	21.2	22.4
Charge for year	0.1	–	6.6	6.7
Disposals	–	–	(3.1)	(3.1)
At 1 April 2010	0.9	0.4	24.7	26.0
Charge for year	–	0.1	8.7	8.8
Disposals	–	–	(4.5)	(4.5)
At 31 March 2011	0.9	0.5	28.9	30.3
Net book value at 31 March 2011	1.4	1.2	36.6	39.2
Net book value at 31 March 2010	1.6	0.1	24.0	25.7

Included in the total net book value of plant, vehicles and equipment is £19.8 million (2010: £13.4 million) in respect of assets acquired under finance leases and hire purchase agreements. Depreciation for the year on these assets was £4.9 million (2010: £3.6 million).

12 Goodwill

	<i>For the year ended 31 March 2011</i>
	<i>Total (£m)</i>
Group	
Cost and net book value	
At 1 April 2009 and 1 April 2010	35.2
Acquisition of subsidiary (Note 27)	6.9
At 31 March 2011	42.1

For the year ended 31 March
2011 2010
(£m)

Group		
May Gurney Group Limited	5.4	5.4
May Gurney Limited	25.0	25.0
May Gurney Recycling CIC	4.8	4.8
Turriff Group Limited	5.9	–
	<hr/> 42.1	<hr/> 35.2
	<hr/>	<hr/>

The carrying values of the Group's goodwill are reassessed at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If analysis indicates that the carrying value is too high, then this is reduced to its recoverable amount which is the higher of fair value less costs to sell and its value in use.

Value in use is calculated using pre-tax cash flow projections based on financial budgets and business plans covering a four year period, which take into account historical trends and market conditions, and which have been approved by the Board. The cash flow forecasts are adjusted by an appropriate discount rate derived from our cost of capital plus a reasonable risk premium at the date of valuation.

The key assumptions are: operating margin (4-5 per cent.); average annual growth rate (0-7 per cent.); and pre-tax discount rate (10 per cent.). The average growth rates used are consistent with forecasts included in industry reports.

The Group's impairment review is sensitive to changes in the key assumptions used, in particular the growth rate and discount rate. However, based on the Group's sensitivity analysis, a reasonable change in a single assumption will not cause impairment in any of the Group's cash-generating units.

13 Other intangible assets

	<i>For the year</i> <i>ended 31</i> <i>March 2011</i> <i>Total</i> <i>(£m)</i>
Group	
Valuation	
At 1 April 2009 and 1 April 2010	19.9
Internal development	2.9
Additions – acquisition of subsidiary (Note 27)	<hr/> 5.0
At 31 March 2011	<hr/> 27.8
Amortisation	
At 1 April 2009	11.1
Charge for year	3.2
At 1 April 2010	14.3
Charge for year	2.1
At 31 March 2011	16.4
Net book value at 31 March 2011	11.4
Net book value at 1 April 2010	5.6

Other intangible assets valuation comprises:

	<i>Year acquired</i>	<i>Carrying value (£m)</i>	<i>Valuation (£m)</i>	<i>UEL* years</i>
TJ Brent Order book ⁽¹⁾	2005	–	2.1	2
TJ Brent Customer relationships ⁽¹⁾	2005	0.6	6.4	10
AC Chesters Order book ⁽¹⁾	2007	–	1.2	3
AC Chesters Customer relationships ⁽¹⁾	2007	0.2	0.3	8
FDT Order book ⁽¹⁾	2008	–	0.6	3
FDT Customer relationships ⁽¹⁾	2008	0.1	0.5	5
Willows Order book ⁽¹⁾	2008	–	0.3	1.5
Willows Customer relationships ⁽¹⁾	2008	–	1.0	4
SHWRC Business Order book ⁽²⁾	2008	1.5	3.7	8.5
ECT Order book ⁽²⁾	2009	1.4	3.3	7
ECT Customer relationships ⁽²⁾	2009	–	0.5	7
MGConnect™ software development	2011	2.9	2.9	4
Turriff Order book ⁽¹⁾	2011	1.5	1.7	3
Turriff Customer relationships ⁽¹⁾	2011	3.0	3.1	5
Turriff Trademark ⁽¹⁾	2011	0.2	0.2	1
		11.4	27.8	

Notes:

(1) Regulated Sector Services operating segment

(2) Public Sector Services operating segment

* UEL = Original Useful Economic Life

In the year the group incurred costs in developing software for the MGConnect™ project which is the Group's integrated web enabled technology platform that covers all areas of the Group's activities.

For the valuations above the purchase price allocation method was used, which required identification and fair value estimation of the individual intangible assets acquired. In order to arrive at an estimate of fair value, the income approach was used which values the cash flows that the asset might reasonably be expected to generate. The Turriff valuations completed in the year were based on financial projections prepared at the time of acquisition and a weighted average cost of capital of 16.1 per cent.

14 Investments

Company	<i>Shares in subsidiary undertaking</i>	<i>2011 Total (£m)</i>	<i>2010 Total</i>
Cost and net book value			
At beginning and end of year	20.3	20.3	20.3

Refer to Note 30 for the list of subsidiary entities.

15 Deferred tax (liability)/asset

	<i>For the year ended 31 March</i>			
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
At beginning of year	1.1	0.9	(0.2)	0.3
Effect of reduction in future tax rate to 26 per cent.	(0.1)	–	–	–
Acquisition of subsidiaries	(1.0)	–	–	–
Credited direct to equity	–	(0.2)	1.2	0.6
Relief on exercise of share options	–	–	(0.1)	–
Income statement credit	0.9	–	0.2	–
At end of year	<u>0.9</u>	<u>0.7</u>	<u>1.1</u>	<u>0.9</u>

Deferred taxation at 26 per cent. (2010: 28 per cent.) is in respect of:

	<i>For the year ended 31 March</i>			
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Depreciation in excess of capital allowances	0.1	–	0.2	–
Other temporary differences	0.9	–	1.0	–
Intangible assets acquired	(2.3)	–	(1.6)	–
Share-based payments	2.1	0.6	1.2	0.6
Defined benefit pension scheme	0.1	0.1	0.3	0.3
Deferred tax asset	<u>0.9</u>	<u>0.7</u>	<u>1.1</u>	<u>0.9</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

16 Inventories

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>Group</i>	<i>Group</i>
	<i>(£m)</i>	
Raw materials and consumables	0.3	0.3
Finished goods and goods for resale	4.1	2.4
	<u>4.4</u>	<u>2.7</u>

During the year, £9.1 million (2010: £6.5 million) of inventories was recognised as an expense.

17 Trade and other receivables

	<i>For the year ended 31 March</i>			
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Trade receivables	91.0	–	67.9	–
Amounts due from contract customers	7.9	–	7.0	–
Amounts owed by subsidiary undertakings	–	2.8	–	–
Other receivables	4.6	–	5.4	–
Prepayments and accrued income	6.9	0.1	1.1	0.2
	<u>110.4</u>	<u>2.9</u>	<u>81.4</u>	<u>0.2</u>

Trade and other receivables are initially stated at their fair value and subsequently measured at amortised cost as reduced by appropriate allowance for estimated irrecoverable amounts. The May Gurney Directors consider that the carrying values of current trade and other receivables approximate their fair values.

Amounts due from contract customers relates to value in excess of cash received recognised on long-term contracts. At 31 March 2011 there were three contracts being accounted for as a long-term contract (2010: one).

Trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be potentially impaired and a provision of £0.5 million (2010: £0.4 million) has been recorded accordingly.

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	<i>For the year ended 31 March</i>			
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Not more than three months	3.9	–	8.9	–
More than three months but not more than six months	0.8	–	0.8	–
	<u>4.7</u>	<u>–</u>	<u>9.7</u>	<u>–</u>

The movement in the provision for impairment of trade receivables is as follows:

	<i>For the year ended 31 March</i>			
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Balance at 1 April 2010	0.4	–	0.3	–
Credited to the income statement				
– additional provisions	0.4	–	0.3	–
– unused amounts reversed	(0.3)	–	(0.2)	–
Balance at 31 March 2011	<u>0.5</u>	<u>–</u>	<u>0.4</u>	<u>–</u>

The ageing of the impaired receivables is as follows:

	<i>For the year ended 31 March</i>			
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Six to nine months	0.2	–	0.1	–
Nine to 12 months	0.1	–	0.1	–
Over 12 months	0.2	–	0.2	–
	<u>0.5</u>	<u>–</u>	<u>0.4</u>	<u>–</u>

Credit risk

Exposure to credit risk is disclosed in Note 20.

18 Cash and cash equivalents

	<i>For the year ended 31 March</i>			
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Cash at bank and in hand	20.9	3.5	28.4	20.7
Short-term bank deposits	15.3	5.1	15.0	5.0
	<u>36.2</u>	<u>8.6</u>	<u>43.4</u>	<u>25.7</u>

The carrying amount of cash and cash equivalents approximates their fair value.

19 Trade and other payables

	<i>For the year ended 31 March</i>			
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Amounts due to contract customers	3.9	–	0.8	–
Trade payables	80.2	–	76.5	0.1
Contingent consideration (Note 27)	6.0	–	–	–
Amounts owed to subsidiary undertakings	–	–	–	14.9
Other tax and social security	14.8	1.0	9.3	1.0
Other payables	16.3	0.2	7.0	0.2
Accruals and deferred income	11.5	0.2	11.6	0.2
	<u>132.7</u>	<u>1.4</u>	<u>105.2</u>	<u>16.4</u>

Trade and other payables are initially stated at their fair value and subsequently measured at amortised cost. The May Gurney Directors consider that the carrying values of current trade and other payables approximate their fair values.

Amounts due to contract customers relates to cash received in excess of value recognised.

20 Financial instruments

Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group comprises equity attributable to equity holders of May Gurney Integrated Services PLC consisting of issued ordinary share capital, reserves and retained earnings as disclosed in Notes 23 and 25 and cash and cash equivalents as disclosed in Note 18.

The Group maintains or adjusts its capital structure through the payment of dividends to shareholders. The Group's policy is to carry no significant long-term debt, other than finance leases.

The Group's overall capital risk management strategy remains unchanged from 2010.

Financial risk management

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

The Group's finance department manages the principal financial risks within policies and operating parameters approved by the Board.

Interest rate risk

Interest rate risk does not arise on the Group's obligations under finance leases as interest rates are fixed at the start of the lease.

Interest rate risk arises on the Group's cash and cash equivalents. A 1 per cent. increase/decrease in the Bank of England base rate would lead to a £0.4 million (2010: £0.4 million) increase/decrease in the Group's finance income.

Credit risk

Exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, namely cash and cash equivalents and trade and other receivables.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that all financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. An analysis of amounts that are past due but not impaired is shown in Note 17.

None of the Group's financial assets is secured by collateral or other credit enhancements.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high-quality external credit ratings.

The Group has no significant concentration of credit risk in respect of amounts due from contract customers or trade receivable balances at the reporting date, with exposure spread over a number of customers and across the Group's operating segments.

Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection.

The Group maintains cash to meet its liquidity requirements for up to 30-day periods. Funding in regards to long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

Commodity price risk

Through its environmental services contracts, the group has some exposure to fluctuations in recyclable commodity prices. Where possible, the group seeks to mitigate the risk by passing on the risk and reward of price fluctuations to clients and through the use of cap and collar agreements with buyers of recyclables commodities.

Foreign currency risk

The Group does not have significant foreign currency transactions and exposure to foreign currency risk is therefore minimal. Accordingly, these financial statements do not include any sensitivity analysis in respect of currency risk.

Price risk

The May Gurney Directors do not consider there to be any price risk relating to equity instruments and hence no need for any related disclosures.

Categories of financial instruments

Group	2011				2011			
	2011 Loans and receivables	2011 Non- financial assets	2011 Financial liabilities at amortised cost	2011 Non- financial liabilities receivables (£m)	2011 Loans and receivables	2011 Non- financial assets	2011 Financial liabilities at amortised cost	2011 Non- financial liabilities
Financial assets								
Cash at bank	36.2	–	–	–	43.4	–	–	–
Trade receivables – current	91.0	–	–	–	67.9	–	–	–
Other receivables – current	12.5	–	–	–	12.4	–	–	–
Prepayments	–	6.9	–	–	–	1.1	–	–
Total	139.7	6.9	–	–	123.7	1.1	–	–
Financial liabilities								
Trade payables	–	–	(80.2)	–	–	–	(76.5)	–
Other liabilities – current	–	–	(20.2)	–	–	–	(7.8)	–
Other liabilities – non-current	–	–	–	(0.1)	–	–	–	(0.1)
Accruals	–	–	(11.5)	–	–	–	(11.6)	–
VAT and taxation payables	–	–	–	(16.8)	–	–	–	(10.4)
Contingent consideration	–	–	(6.0)	–	–	–	–	–
Total	–	–	(117.9)	(16.9)	–	–	(95.9)	(10.5)
Net	139.7	6.9	(117.9)	(16.9)	123.7	1.1	(95.9)	(10.5)
Financial assets								
Cash at bank	8.6	–	–	–	25.7	–	–	–
Other receivables – current	–	–	–	–	–	–	–	–
Prepayments	–	0.1	–	–	–	0.2	–	–
VAT and taxation receivables	–	0.4	–	–	–	1.1	–	–
Investments in subsidiaries	–	20.3	–	–	–	20.3	–	–
Total	8.6	20.8	–	–	25.7	21.6	–	–
Financial liabilities								
Trade payables	–	–	–	–	–	–	(0.1)	–
Other liabilities – current	–	–	(0.2)	–	–	–	(15.0)	–
Accruals	–	–	(0.2)	–	–	–	(0.2)	–
VAT and taxation payables	–	–	–	(1.0)	–	–	–	(1.0)
Total	–	–	(0.4)	(1.0)	–	–	(15.3)	(1.0)
Net	8.6	20.8	(0.4)	(1.0)	25.7	21.6	(15.3)	(1.0)

Maturity of the Group's financial liabilities

	2011			2010		
	Trade and other payables	2011 Finance leases	2011 Total	Trade and other payables	2010 Finance leases	2010 Total
Due within one year	111.9	8.3	120.2	95.9	6.3	102.2
Due within one to two years	–	5.9	5.9	–	5.0	5.0
Due within two to five years	–	13.8	13.8	–	4.3	4.3
	111.9	28.0	139.9	95.9	15.6	111.5

The above contractual maturities reflect the gross cash flows which may differ to the carrying values of the liabilities at the reporting date.

21 Obligations under finance leases

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>Group</i>	<i>Group</i>
	<i>(£m)</i>	
Finance lease and hire purchase obligations		
Repayable: Within one year	7.3	5.6
Repayable: Between two and five years	18.0	8.6
	<u>25.3</u>	<u>14.2</u>

The net obligations under finance lease and hire purchase agreements of £25.3 million (2010: £14.2 million) are secured on the assets acquired. The May Gurney Directors consider that there is no material difference between the carrying value and the fair value of finance lease obligations.

The gross obligations under finance lease and hire purchase agreements are £28.0 million (2010: £15.6 million).

During the year, obligations totalling £1.3 million (2010: £nil) were acquired with the new subsidiary undertakings.

22 Provisions and other liabilities

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>Group</i>	<i>Group</i>
	<i>(£m)</i>	
Finance lease and hire purchase obligations		
At beginning of year	0.1	0.1
Credit for the year	–	–
At end of year	<u>0.1</u>	<u>0.1</u>

The above provisions comprise £0.1 million (2010: £0.1 million) in respect of site reinstatement obligations where the Group was formerly engaged in the excavation of sand and aggregates and other site reinstatement obligations.

23 Share capital

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>Group</i>	<i>Group</i>
	<i>(£m)</i>	
Authorised		
Equity shares		
Ordinary 5 pence shares	6.8	6.8
Issued and fully paid		
Equity shares		
Ordinary 5 pence shares	3.5	3.5
	<i>Number</i>	<i>Number</i>
Authorised ordinary 5 pence shares	135,000,000	135,000,000
Issued ordinary 5 pence shares	70,236,016	70,236,016

24 Share-based payments

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>Group</i>	<i>Group</i>
	<i>(£m)</i>	
LTIP	0.1	0.2
Sharesave	0.3	0.2
CSOP and other schemes	(0.1)	–
Total	0.3	0.4

For options granted post-flotation (June 2006), independent valuations have been used to determine the fair values for share-based payments. The fair values and assumptions used were as follows:

	<i>LTOP 08</i>	<i>LTOP 09</i>	<i>LTOP 10</i>	<i>CSOP 08</i>	<i>CSOP 09</i>	<i>CSOP 10</i>	<i>Deferred bonus</i>	<i>Sharesave 08</i>	<i>Sharesave 09</i>	<i>Sharesave 10</i>	<i>Stand alone option 06</i>	<i>Stand alone option 07</i>
Price model	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial
Grant date	8 July 08	8 July 09	8 July 10	8 July 08	8 July 09	8 July 10	8 July 10	8 August 08	12 August 09	6 August 10	12 March 07	25 July 07
Share price at grant	236.00p	161.00p	192.00p	236.00p	161.00p	192.00p	192.00p	241.00p	175.00p	198.00p	330.00p	335.00p
Exercise price	Nil	Nil	Nil	236.00	161.00p	192.00p	Nil	196.00p	139.00p	159.00p	330.00p	335.50p
Option life	10 years	10 years	10 years	10 years	10 years	10 years	3 years	3.6 years	3.6 years	3.6 years	10 years	10 years
Expected vesting life	3 years	3 years	3 years	3 years	3 years	3 years	2 years	3.1 years	3.1 years	3.1 years	2 years	3 years
Risk-free rate	5.03%	3.73%	3.22%	5.03%	3.73%	3.22%	1.16%	4.68%	3.03%	1.98%	4.80%	5.30%
Expected volatility	30%	40%	40%	30%	40%	40%	40%	30%	40%	40%	25%	25%
Expected dividend yield	2%	3%	3%	2%	3%	3%	3%	2%	3%	3%	2%	2%
Value per option	222.00p	147.00p	175.00p	72.00p	52.00p	63.00p	180.00p	79.00p	36.00p	39.00p	87.06p	95.40p

For 2003 Scheme options, which were granted prior to flotation, the fair value of services received in return for share-based payments were measured by the fair value of shares received and options granted. Owing to the absence of a market for the Company's shares at the time of grant, the Company used share valuation methodology which looks at comparator listed companies and adjusts for the lack of an active market by means of discounting their quoted price earnings ratios. The risk-free rate of return was assumed to be 5 per cent.

May Gurney Unapproved Share Option Scheme (the "2003 Scheme")

The 2003 Scheme was adopted in 2003 and ceased issuing new options on the flotation of the Company. Under the Scheme, options were granted to executive directors and to senior and middle management. The exercise of some of the options granted under the 2003 Scheme was conditional upon the achievement of objective performance targets set by the Trustee of the ESOT at the time of grant. Options granted under the 2003 Scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company's subsidiaries. Further details of the scheme are included in the May Gurney Directors' remuneration report.

	2011		2010	
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	596,500	26.01p	837,500	25.03p
Granted	–	–	–	–
Exercised	(29,000)	13.58p	(241,000)	22.62p
Lapsed	(200,000)	50.64p	–	–
Outstanding at end of year	367,500	13.58p	596,500	26.01p
Exercisable at the end of the year	367,500	13.58p	396,500	13.58p

The weighted average share price at the date of exercise was 203 pence (2010: 179 pence).

The May Gurney Long Term Incentive Plan ("LTIP")

The LTIP scheme is a long-term incentive plan for executive directors and senior managers. The exercise of awards granted under the LTIP will in normal circumstances be conditional upon the achievement of objective performance targets set at the time of grant. Such performance targets shall be measured over a performance period. Options granted under the LTIP Scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company's subsidiaries. Further details of the scheme are included in the May Gurney Directors' remuneration report. Options granted, exercised and forfeited under the scheme were as follows:

	2011		2010	
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	949,826	–	585,698	–
Granted	689,402	–	674,143	–
Exercised	–	–	–	–
Lapsed	(230,016)	–	(310,015)	–
Outstanding at end of year	1,409,212	–	949,826	–
Exercisable at the end of the year	–	–	–	–

The May Gurney Savings Related Share Option Scheme (“Sharesave”)

The Sharesave scheme was established in July 2007. Participation is offered to all employees of the Group who have been employed for a continuous period which is determined by the Board. Under the Sharesave contract participating employees save a regular sum each month for three years of not less than £5 nor more than £250 per month.

Options to acquire ordinary shares in the capital of the Company will be granted to eligible employees who enter into a Sharesave contract. The number of options will be that number of shares which have an aggregate option price not exceeding the projected proceeds of the Sharesave contract including any bonus. The option price per share will not be less than 80 per cent. of the market value of an ordinary share on the day on which invitations to apply for options are issued.

The requirement to make regular saving contributions under the scheme are non-vesting conditions. When an employee chooses whether to meet a non-vesting condition, and fails to do so, such a failure is treated as a cancellation and therefore an acceleration of the share-based payment charge.

Options granted under the Sharesave Scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company’s subsidiaries. Further details of the scheme are included in the May Gurney Directors’ remuneration report. Options granted, exercised and forfeited under the scheme were as follows:

	2011		2010	
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	1,891,561	179.05p	1,644,511	221.26p
Granted	852,739	159.00p	1,048,312	139.00p
Exercised	(6,572)	155.90p	(1,618)	254.00p
Lapsed	(390,477)	169.23p	(799,644)	211.86p
Outstanding at end of year	<u>2,347,251</u>	<u>173.51p</u>	<u>1,891,561</u>	<u>179.05p</u>
Exercisable at the end of the year	–	–	–	–

The May Gurney Company Share Ownership Plan (“CSOP”)

The CSOP scheme is a long-term incentive plan for senior managers. The exercise of awards granted under the CSOP will in normal circumstances be conditional upon the achievement of objective performance targets set at the time of grant. Such performance targets shall be measured over a performance period. Options granted under the CSOP Scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company’s subsidiaries. Options granted, exercised and forfeited under the scheme were as follows:

	2011		2010	
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	259,881	257.46p	316,633	261.24p
Granted	72,912	192.00p	77,875	161.00p
Exercised	–	–	–	–
Forfeited	(17,906)	223.38p	(134,627)	253.38p
Outstanding at end of year	<u>314,887</u>	<u>208.13p</u>	<u>259,881</u>	<u>257.46p</u>
Exercisable at the end of the year	–	–	–	–

The May Gurney Deferred Share Bonus Plan (“Deferred Bonus Scheme”)

The Deferred Bonus scheme is a long-term incentive plan for executive director and senior managers whereby one-third of the option holders’ profit share bonus in 2010 was converted into share options. Options granted under the Deferred Bonus Scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company’s subsidiaries. Options granted, exercised and forfeited under the scheme were as follows:

	2011		2010	
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	–	–	–	–
Granted	45,500	–	–	–
Exercised	–	–	–	–
Forfeited	(7,389)	–	–	–
Outstanding at end of year	38,111	–	–	–
Exercisable at the end of the year	–	–	–	–

Other schemes

Option granted, exercised and forfeited under other scheme were as follows:

<i>Date of award</i>	<i>Market value at date of award</i>	<i>Earliest vesting Date</i>	<i>Awarded at 1 April 2010</i>	<i>Granted in year</i>	<i>Vested in year</i>	<i>Lapsed in year</i>	<i>Awarded at 31 March 2011</i>
12 March 2007	330.0p	12 Mar 09	151,515	–	–	–	151,515
25 July 2007	335.5p	25 Jul 10	110,359	–	–	(104,398)	5,961

25 Reserves

	<i>For the year ended 31 March</i>			
	<i>2011 Group</i>	<i>2011 Company</i>	<i>2010 Group</i>	<i>2010 Company</i>
	<i>(£m)</i>			
Share premium account				
At beginning and end of year	13.2	13.2	13.2	13.2
Merger relief reserve				–
At beginning and end of year	1.9	1.9	1.9	1.9
Retained earnings				
At beginning of year	53.4	10.7	43.5	6.3
Retained profit for the year	13.3	3.6	13.1	8.5
Dividends	(3.9)	(3.9)	(3.5)	(3.5)
Items charged direct to equity	0.7	0.7	(0.9)	(0.9)
Movements relating to share-based payments	0.6	–	1.2	0.3
	64.1	11.1	53.4	10.7

Merger relief reserve

On 8 June 2004, the Company issued 21,715 ordinary shares of £1 each at a premium amounting to £1.9 million. The shares were issued as part consideration for the acquisition of the whole of the issued share capital of TJ Brent Limited, accounted for using the purchase method of accounting. The premium over the nominal value of the shares issued was previously credited to a merger relief reserve as allowed under Section 612 of the Companies Act.

Other reserves

Other reserves in the Group and Company statements of financial position are made up as follows:

<i>Group and Company</i>	<i>For the year ended 31 March</i>			
	<i>Capital redemption reserve</i>	<i>ESOT reserve</i>	<i>2011 Total</i>	<i>2010 Total</i>
		(<i>£m</i>)		
At beginning of year	2.9	(1.5)	1.4	1.4
Proceeds from disposal of own shares	–	–	–	0.1
Taxation on share sales	–	–	–	(0.1)
At end of year	2.9	(1.5)	1.4	1.4

Capital redemption reserve

The capital redemption reserve arose on the redemption of the May Gurney Integrated Services PLC cumulative convertible redeemable £1 preference shares in September 2004.

ESOT reserve

As at 31 March 2012, the ESOT held 1,434,378 (2011: 1,434,378) ordinary 5 pence shares in the Company.

The maximum number of 5 pence ordinary shares held in the Company by the ESOT during the year was 1,434,378 (2010: 1,604,378).

The ordinary shares in the Company held by the ESOT represent 2.0 per cent. (2010: 2.0 per cent.) of the ordinary share capital of the Company.

On 28 March 2008, May Gurney Group Trustees Limited, acting in its capacity as trustee of the ESOT, transferred 1,783,324 ordinary shares by way of a gift for nil consideration to Lloyds TSB Offshore Trust Company Limited acting in its capacity as trustee of the EBT, an offshore trust. The ordinary shares in the Company held by the EBT represent 2.4 per cent. of the ordinary share capital of the Company. At 31 March 2011, the EBT held 1,675,134 (2010: 1,710,347) ordinary shares.

26 Commitments

	<i>For the year ended 31 March</i>	
	<i>2011 Group</i>	<i>2010 Group</i>
		(<i>£m</i>)
(i) Operating lease commitments		
Total commitments due under operating leases:		
Land and buildings		
Within one year	2.5	2.2
Between two and five years	4.5	4.6
More than five years	1.3	1.6
	8.3	8.4
Other		
Within one year	6.2	5.6
Between two and five years	9.0	8.5
More than five years	–	1.0
	15.2	15.1

For the year ended 31 March
2011 2010
Group Group
(£m)

(ii) Property, plant and equipment

Future capital expenditure authorised by the May Gurney Directors but not provided for in these financial statements is as follows:

	2.3	7.1
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27 Business combinations

(a) Turriff Group Limited

On 21 January 2011, the Group acquired 100 per cent. of the issued share capital of Turriff Group Limited, one of Scotland's largest utility infrastructure maintenance companies. This transaction has been accounted for by the purchase method of accounting.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	<i>Acquiree's carrying amount before combination</i>	<i>Provisional fair value adjustments (£m)</i>	<i>Fair value</i>
Net assets acquired:			
Property, plant and equipment	6.9	(0.2)	6.7
Intangible assets	–	5.0	5.0
Inventories	0.1	–	0.1
Trade receivables	9.7	(1.0)	8.7
Taxation receivables	0.2	–	0.2
Bank overdraft	(5.8)	–	(5.8)
Trade payables	(3.5)	(1.0)	(4.5)
Debt	(1.4)	–	(1.4)
Finance leases	(1.3)	–	(1.3)
Deferred tax	(0.2)	(0.8)	(1.0)
	4.7	2.0	6.7
Goodwill			6.9
Total consideration			13.6
Purchase consideration:			
Cash paid			7.6
Contingent consideration			6.0
			13.6
Net cash outflow arising on acquisition:			
Cash consideration paid			(7.6)
Overdraft acquired			(5.8)
Acquisition and integration costs			(0.8)
Bank loans and loan notes repaid			(1.4)
			(15.6)

The fair value of contingent consideration has been estimated at £6.0 million:

- £3.0 million payable upon meeting revenue targets with certain key customers.
- £2.0 million payable upon retention of certain key employees for periods of up to three years.
- £1.0 million payable pending determination of the completion EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) for the year ended 31 December 2010 for Turriff Group.

The maximum undiscounted amount of future payments is £6.0 million, which based on financial projections prepared at the time of acquisition, we expect to be payable in full.

Provisional fair value adjustments have been made to Property, plant and equipment, Trade receivables and Trade payables in order to align the acquiree's accounting policies with those of the Group.

The intangible asset recognised on acquisition relates to the fair value of the order book, trade marks and customer relationships acquired. Further details are disclosed in Note 13.

The acquisition and integration costs of £0.8 million above have been paid during the year, with a further £0.7 million of costs included in Accruals and deferred income.

The goodwill arising on the acquisition of Turriff Group Limited is attributable to the anticipated profitability of the Group's services in the new markets and the anticipated future operating synergies from the combination.

Turriff Group Limited contributed £9.0 million revenue and £0.4 million profit to the Group's profit before tax for the period between the date of acquisition and the financial reporting date.

If the acquisition had been completed on 1 April 2010, total Group revenue for the year would have been £604.8 million, and profit for the period would have been £13.3 million.

(b) *Nordis Signs*

On 1 December 2010, the Group acquired the trade and assets of Nordis Signs for a consideration of £0.3 million. This purchase strengthens the Group's capability in the manufacture of road signage.

28 Employee benefits

Defined contribution pension schemes

The Group operates eight defined contribution pension schemes (2010: eight) and contributions during the year amounted to £4.0 million (2010: £3.1 million). The schemes are the May Gurney Defined Contribution Pension Scheme, TJ Brent Limited Group Personal Pension Plan, T Cartledge Limited Group Personal Pension Plan, AC Chesters & Son Limited Staff Pension Scheme, FDT Executive Pension Plan, FDT Group Personal Pension Plan, FDT Stakeholder Pension and Willows Plant Limited Group Personal Pension Plan.

The Group also makes contributions to local government defined benefit pension schemes in respect of certain employees who have transferred to the Group under TUPE transfer arrangements. The Group is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and consequently the pension costs for these schemes are treated as if they were defined contribution schemes.

Defined benefit pension scheme

The Group operates a defined benefit pension scheme (May Gurney Defined Benefit Pension Scheme) for some salaried employees and supervisory foremen. The assets of the scheme are held separately from those of the Group and are invested in managed funds.

The pension cost relating to the scheme is assessed in accordance with the advice of a qualified actuary on the basis of valuations at each reporting date using the projected unit costing method. The pension charge for the year was £1.1 million (2010: £0.9 million).

The most recent full triennial valuation was carried out at 1 April 2008. The ongoing valuation assumed, in assessing pension costs, that the return on the scheme's pre-retirement investments would exceed by 2.85 per cent. the rate at which wages and salaries would increase. Future pensions that are due to increase by the maximum of RPI and 5 per cent. each year were assumed to increase at the rate of 3.3 per cent. per annum. The employer's contribution rate as recommended by the actuary was 10.9 per cent. of Pensionable Salary per annum in respect of future accrual of benefits, 1.0 per cent. of Pensionable Salary per annum in respect of death in service benefits, plus Scheme expenses (including levies). The scheme's assets were greater than the scheme's technical provisions at the valuation date, and therefore there was no need to establish a recovery plan to make up any shortfall. The average contribution rate by the employees is 6.7 per cent.

The Company has opted to recognise all actuarial gains and losses immediately as Other Comprehensive Income.

A full actuarial valuation of the scheme was carried out as at 31 March 2008, and this was updated to 31 March 2011 by a qualified independent actuary on an IAS 19 basis. The major assumptions used by the actuary were (in nominal terms) as follows:

	<i>2011</i>	<i>2010</i>
	<i>per cent.</i>	
Discount rate	5.55	5.61
Inflation assumption	3.40	3.60
Rate of increase in salaries	4.15	4.35
Rate of increase in pensions in payment – pre-1997	Nil	Nil
– post-1997	3.20	3.30
– post-2006	2.10	2.15
Overall expected return on plan assets	5.70	5.72

The mortality assumptions used as at 31 March 2011 are based on standard tables produced by the actuarial profession, adjusted for scheme experience.

	<i>2011</i>	<i>2010</i>
Death in service/deferment	AXC00	AXC00
Death after retirement – Non-Pensioners	PXCA00 qx 110%(m) 112%(f). MC projections from 2002 s.t. floors of 0.5% pa	PXCA00
– Pensioners	PXCA00 qx 110%(m) 112%(f). MC projections from 2002 s.t. floors of 0.5%pa	PXCA00
Life expectancy at 65:		
Male currently 65	21	21
Male currently 45	22	22
Female currently 65	23	23
Female currently 45	24	24

The Scheme's net pension liability and expected rate of return on its investments as at 31 March 2011 and as at 31 March 2010 are as follows:

The assets in the scheme and the expected rates of return were:

	<i>Long-term expected rate of return (pa) per cent.</i>	<i>2011 Fair value (£m)</i>	<i>Long-term expected rate of return (pa) per cent.</i>	<i>2010 Fair value (£m)</i>
Equities	7.25	16.9	7.25	15.7
Bonds – Corporate	5.55	12.9	5.61	12.1
Bonds – Government	4.35	17.4	4.50	16.5
Cash and Other	0.50	0.4	0.50	0.6
Property	6.00	3.6	6.00	3.3
Annuities	5.55	0.7	5.61	0.8
Total market value of assets		51.9		4.90
Present value of funded retirement benefit obligations		(52.3)		(50.1)
(Deficit)/surplus in the scheme		(0.4)		(1.1)
Less: Related deferred tax liability		0.1		0.3
Net pension (liability)/asset		(0.3)		(0.8)

The actual return on plan assets was £3.1 million (2010: £9.8 million).

The expected rate of return on scheme assets was determined as the weighted average of the expected returns on the assets held by the scheme on 31 March 2011. The rates of return for each class were determined as follows:

- equities and property: the rate adopted is consistent with the median assumption used in the actuary's asset modelling work as at 31 March 2007.
- bonds: the overall rate has been set to reflect the yields available on the gilts and Grade AA corporate bond holdings held at 31 March 2011.

Reconciliation of opening and closing balances of the fair value of plan assets

<i>Change in the fair value of scheme assets</i>	<i>2011 (£m)</i>	<i>2010</i>
Fair value at the beginning of the year	49.0	40.4
Expected return on scheme assets	2.8	2.2
Contributions by employers	0.9	1.0
Contributions by members	0.5	0.6
Benefits paid	(1.6)	(2.8)
Actuarial gain	0.3	7.6
Fair value of plan assets at the end of the year	51.9	49.0

The Group expects to pay contributions of £0.9 million in the year ended 31 March 2012, plus Scheme expenses and levies as they fall due.

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

<i>Change in the present value of the defined benefit obligation</i>	<i>2011</i>	<i>2010</i>
	<i>(£m)</i>	
Present value of the obligation at the beginning of the year	(50.1)	(40.3)
Company's service cost	(1.1)	(0.9)
Interest cost	(2.8)	(2.5)
Contributions by members	(0.5)	(0.6)
Benefits paid	1.6	2.8
Actuarial gain/(loss)	0.6	(8.9)
Curtailments and settlements	–	0.3
Present value of the obligation at the end of the year	<u>(52.3)</u>	<u>(50.1)</u>

The amount charged to earnings before interest and tax, and included within cost of sales and administration costs, is:

	<i>2011</i>	<i>2010</i>
	<i>(£m)</i>	
Current service cost, less employee contributions	(1.1)	(0.9)
Total charge	(1.1)	(0.9)

Other finance costs are:

	<i>2011</i>	<i>2010</i>
	<i>(£m)</i>	
Expected return on pension scheme assets	2.8	2.2
Interest on pension scheme liabilities	(2.8)	(2.5)
Curtailments and settlements	–	0.3
Net income	<u>–</u>	<u>–</u>

The amount recognised in the statement of comprehensive income is:

	<i>2011</i>	<i>2010</i>
	<i>(£m)</i>	
Actual return less expected return on pension scheme assets	<u>0.3</u>	<u>7.6</u>
Experience losses arising on the scheme liabilities	–	–
Changes in the assumptions underlying the present value on the scheme liabilities	<u>0.6</u>	<u>(8.9)</u>
Actual gain/(loss) recognised in comprehensive income	<u>0.9</u>	<u>(1.3)</u>
(Deficit)/surplus in scheme at beginning of year	(1.1)	0.1
Movement in year:		
Current service cost	(1.1)	(0.9)
Contributions by employers	0.9	1.0
Other finance expense	–	(0.3)
Curtailments and settlements	–	0.3
Net actuarial gains/(losses)	<u>0.9</u>	<u>(1.3)</u>
Deficit in scheme at end of year	<u>(0.4)</u>	<u>(1.1)</u>

History of experience gains and (losses) are:

	2011	2010	2009 (£m)	2008	2007
Fair value of scheme assets	51.9	49.0	40.4	43.4	41.4
Present value of the defined benefit obligation	(52.3)	(50.1)	(40.3)	(42.6)	(41.4)
Net (deficit)/surplus	(0.4)	(1.1)	0.1	0.8	–
Difference between expected and actual return on scheme assets					
Amount (£m)	0.3	7.6	(7.1)	(1.9)	(1.1)
Percentage of scheme assets	0.6%	15.5%	(17.6)%	(4.4)%	(2.7)%
Experience (losses)/gains arising on liabilities					
Amount (£m)	–	–	(1.2)	1.8	(0.5)
Percentage of scheme liabilities	0%	0%	(3.0)%	4.2%	(1.3)%
Total actuarial gains/(losses) recognised in comprehensive income					
Amount (£m)	0.9	(1.3)	(1.0)	–	(0.9)
Percentage of scheme assets	1.7%	(2.7)%	(2.5)%	0%	2.3%

The cumulative actuarial gains and losses recognised in the statement of comprehensive income was a loss of £3.7 million (2010: £5.6 million).

29 Contingent liabilities

- (a) The Company has given an unlimited guarantee, secured by fixed and floating charges over the Company's assets in respect of the facilities from Bank of Scotland, of all Group companies. At 31 March 2011, the net indebtedness of all other Group companies amounted to £nil (2010: £nil).
- (b) The Company has given joint and several guarantees securing indemnities given by other Group companies in respect of performance bonds which have been put in place to provide security for clients. These performance bonds are not exercisable on demand. At 31 March 2011, indemnities outstanding for other Group companies amounted to £8.8 million (2010: £3.9 million).

30 Group undertakings

The Group undertakings, all of which are included within the Group financial statements, at 31 March 2011:

	Activity	Percentage of equity owned
Subsidiary undertakings		
May Gurney Group Limited	– Dormant intermediate holding company	100
May Gurney Limited	– Infrastructure support services	+100
May Gurney Estates Limited	– Property holding and development	+100
May Gurney Recycling CIC	– Collection and sale of recyclable materials	*100
North Lincolnshire Learning Partnership (PSP) Limited	– Dormant intermediate holding company	*52
Engage North Lincolnshire Limited	– Facility services for the education sector	****80
Turriff Group Limited	– Provision of contracting services to utility markets	*100
Turriff Contractors Limited	– Provision of contracting services to utility markets	*****100
Underground Moling Services Limited	– Provision of contracting services to utility markets	*****90
Turriff Smart Services Limited	– Provision of contracting services to utility markets	*****100
TOR2 Limited	– Waste, recycling collections & highways maintenance	*80

	<i>Activity</i>	<i>Percentage of equity owned</i>
Lambeth Learning Partnership (PSP) Limited	– Dormant intermediate holding company	*65
Engage Lambeth Limited	– Facility services for the education sector	*****80
MGWSP Essex Limited	– Dormant	*100
ECT Engineering Limited	– Dormant	*100
May Gurney Building Limited	– Dormant	*100
AC Chesters & Son Limited	– Dormant	*100
FDT (Holdings) Limited	– Dormant	*100
FDT Associates Limited	– Dormant	**100
FDT Contracts Limited	– Dormant	**100
Norfolk Community Recycling Services Limited	– Dormant	*100
T Cartledge Limited	– Dormant	*100
TJ Brent Limited	– Dormant	*100
Ayton Asphalte Company Limited	– Dormant	+100
May Gurney (Regional) Limited	– Dormant	+100
May Gurney (Technical Services) Limited	– Dormant	+100
May Gurney Group Trustees Limited	– Dormant	+100
Michco 210 Limited	– Dormant	*100
Engineered Products Limited	– Dormant	*100
Associated undertakings		
Resource Environmental Limited	– Collection and sale of recyclable materials	*50
Jointly controlled entities		
DAWN Environmental Limited	– Collection and sale of recyclable materials	*50
Monmouthshire Community Recycling Limited	– Operation of a kerbside recycling scheme	*50
Jointly controlled operations		
May Gurney WSP JV	– Highways maintenance	*50
Lafarge Contracting/May Gurney JV	– Civil Engineering	*50

Note:

- + held by May Gurney Group Limited
- * held by May Gurney Limited
- ** held by FDT (Holdings) Limited
- *** held by May Gurney Recycling CIC
- **** held by North Lincolnshire Learning Partnership (PSP) Limited
- ***** held by Turriff Group Limited
- ***** held by Lambeth Learning Partnership (PSP) Limited

The shareholdings in subsidiaries, associates and jointly controlled entities all relate to ordinary share capital and are equivalent to the percentages of voting rights held by the Group.

The percentages quoted in respect of the jointly controlled operations are the Group's interests under the joint operation contracts. The joint operations' principal places of business are:

MGWSP, Riverside House, Northampton, Northamptonshire;

Lafarge Contracting/May Gurney, Bradgate House, Groby, Leicester.

31 Reconciliation of operating profit before amortisation and non-recurring costs to cash generated from operations

	<i>For the year ended 31 March</i>			
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Operating profit/(loss) before amortisation and non-recurring costs	25.1	(2.2)	22.1	(2.3)
Depreciation	8.8	–	6.7	–
Profit on sale of property, plant and equipment	(0.1)	–	(0.2)	–
Debit/(credit) in respect of retirement and benefit costs	0.2	0.2	(0.1)	(0.1)
Charge in respect of share-based payments in the period	0.3	–	0.4	–
Increase in inventories	(1.6)	–	(0.3)	–
(Increase)/decrease in trade and other receivables	(20.1)	2.3	(3.0)	–
(Increase)/decrease in trade and other payables	16.0	(3.9)	5.1	(11.7)
Cash received by/(used in) operations	<u>28.6</u>	<u>(3.6)</u>	<u>30.7</u>	<u>(14.1)</u>

Cash and cash equivalents (which are presented as a single class of assets on the face of the statement of financial position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

32 Related party transactions

Key management remuneration

	<i>For the year ended 31 March</i>	
	<i>2011</i>	<i>2010</i>
	<i>Group</i>	<i>Group</i>
	<i>(£m)</i>	
Short-term employee benefits	2.1	2.2
Post-employment benefits	0.1	0.1
Share-based payments	0.2	0.2
	<u>2.4</u>	<u>2.5</u>

Transactions with subsidiary undertakings

Included within trade and other payables are amounts owed by 100 per cent. subsidiary undertakings of the Company of £2.8 million (2010: £14.9 million owed to).

During the year ended 31 March 2011, there were transactions totalling £0.9 million between the Parent Company and its subsidiary undertakings (2010: £0.9 million). All of these transactions, and the year end reporting amounts arising from these transactions were conducted on an arm's length basis and on normal commercial terms. In addition, the Company paid £9.8 million (2010: £4.5 million received from) net to its subsidiary undertakings from investments in short-term bank deposits.

Transactions with jointly controlled entities and jointly controlled operations

During the year the Group made sales to and purchases from its jointly controlled entities and arrangements. These were normal trading transactions, conducted on an arm's length basis and on normal commercial terms. The amounts involved individually and in aggregate are not considered to be material either financially or generally to users of these financial statements.

Other related party transactions

Ishbel Macpherson, non-executive director of the Company, was also a non-executive director of Speedy Hire plc. The Group makes purchases from Speedy Hire companies on an arm's length basis in the normal course of business. During the year, the value of purchases from Speedy Hire companies was £1.8 million (2010: £1.4 million) and a balance of £0.1 million (2010: £0.1 million) was owed at the end of the year.

Tim Ross, non-executive director of the Company, was also a non-executive director of Lavendon Group plc in the year ended 31 March 2011. The Group makes purchases from Lavendon companies on an arm's length basis in the normal course of business. During the year, the value of purchases from Lavendon companies was £0.1 million (2010: £0.2 million) and there were no balances owed at the end of the current or preceding years.

PART C:

MAY GURNEY AUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2012

Independent auditor's report to the members of May Gurney Integrated Services PLC

We have audited the financial statements of May Gurney Integrated Services PLC for the year ended 31 March 2012 which comprise the Group income statement, the Group statement of comprehensive income, the Group and Parent Company statements of changes in equity, the Group and Parent Company statements of financial position, the Group and Parent Company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act. 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 May Gurney Directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 52, the May Gurney Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act.

Opinion on other matters prescribed by the Companies Act

In our opinion, the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Philip Westerman
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London, United Kingdom
11 June 2012

Consolidated income statement of the May Gurney Group for the year ended 31 March 2012

	Note	2012		Year ended 31 March			
		Before non-recurring items and amortisation	Non-recurring items and amortisation	2011	Before non-recurring items and amortisation	Non-recurring items and amortisation	
				(£m)			
Group revenue	4	695.3	–	695.3	571.4	–	571.4
Cost of sales		(625.2)	–	(625.2)	(513.4)	–	(513.4)
Gross profit		70.1	–	70.1	58.0	–	58.0
Administrative expenses		(40.0)	–	(40.0)	(32.9)	–	(32.9)
Group operating profit before amortisation	2	30.1	–	30.1	25.1	–	25.1
– Intangible assets amortisation	13	–	(4.2)	(4.2)	–	(2.1)	(2.1)
– Other non-recurring costs	3	–	(4.9)	(4.9)	–	(3.4)	3.4
Operating profit		30.1	(9.1)	21.0	25.1	(5.5)	19.6
Finance income	5	0.3	–	0.3	0.4	–	0.4
Finance costs	5	(2.0)	–	(2.0)	(1.2)	–	(1.2)
Profit before taxation		28.4	(9.1)	19.3	24.3	(5.5)	18.8
Taxation	8	(7.7)	2.2	(5.5)	(6.9)	1.4	(5.5)
Profit for the year from continuing operations attributable to the equity holders of the Parent Company		20.7	(6.9)	13.8	17.4	(4.1)	13.3
Earnings per share (in pence)	10						
Total and from continuing operations							
Basic earnings per share				20.52p			19.82p
Diluted earnings per share				19.91p			19.34p
Underlying earnings per share				29.47p			24.77p

Consolidated statement of comprehensive income of the May Gurney Group for the year ended 31 March 2012

		<i>Year ended 31 March</i>	
	<i>Note</i>	<i>2012</i>	<i>2011</i>
		<i>(£m)</i>	
Profit for the year		13.8	13.3
Actuarial gains on defined benefit pension schemes	28	–	0.9
Tax on actuarial gains on defined benefit pension schemes		–	(0.2)
Other comprehensive income for the year		–	0.7
Total comprehensive income for the year attributable to equity holders of the Parent Company		13.8	14.0

Consolidated statement of changes in equity of the May Gurney Group for the year ended 31 March 2012

	<i>Year ended 31 March 2012</i>					
	<i>Share capital</i>	<i>Share premium account</i>	<i>Merger relief reserve</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total equity</i>
	<i>(£m)</i>					
Balance at 31 March 2010 and 1 April 2010	3.5	13.2	1.9	1.4	53.4	73.4
Profit for the year	–	–	–	–	13.3	13.3
Other comprehensive income:						
Actuarial gains on defined benefit pension schemes	–	–	–	–	0.9	0.9
Tax on actuarial gains on defined benefit pensions schemes	–	–	–	–	(0.2)	(0.2)
Total comprehensive income for the year	–	–	–	–	14.0	14.0
Transactions with owners:						
Share-based payments – income statement charge	–	–	–	–	0.3	0.3
Share-based payments – deferred tax relief on future exercise	–	–	–	–	0.3	0.3
Dividends paid	–	–	–	–	(3.9)	(3.9)
Balance at 31 March 2011 and 1 April 2011	3.5	13.2	1.9	1.4	64.1	84.1
Profit for the year	–	–	–	–	13.8	13.8
Other comprehensive income:						
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	–
Tax on actuarial gains on defined benefit pension schemes	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	13.8	13.8
Transactions with owners:						
Share-based payments – income statement charge	–	–	–	–	–	–
Share-based payments – deferred tax relief on future exercise	–	–	–	–	(0.4)	(0.4)
Dividends paid	–	–	–	–	(4.9)	(4.9)
Balance at 31 March 2012	3.5	13.2	1.9	1.4	72.6	92.6

Consolidated balance sheet of the May Gurney Group for the year ended 31 March 2012

	<i>Note</i>	<i>Year ended 31 March</i>	
		<i>2012</i>	<i>2011</i>
		<i>(£m)</i>	
Non-current assets			
Property, plant and equipment	11	92.4	39.2
Goodwill	12	60.3	42.1
Other intangible assets	13	18.8	11.4
Deferred tax asset	15	–	0.9
		<hr/>	<hr/>
		171.5	93.6
Current assets			
Inventories	16	4.5	4.4
Trade and other receivables	17	112.2	110.4
Cash and cash equivalents	18	31.0	36.2
		<hr/>	<hr/>
		147.7	151.0
		<hr/>	<hr/>
Total assets		319.2	244.6
Current liabilities			
Trade and other payables	19	(141.2)	(132.7)
Current tax liabilities		(3.1)	(2.0)
Borrowings	21	(20.0)	–
Obligations under finance leases	21	(16.9)	(7.3)
		<hr/>	<hr/>
		(181.2)	(142.0)
Non-current liabilities			
Retirement benefit obligations	28	(0.4)	(0.4)
Obligations under finance leases	21	(43.3)	(18.0)
Deferred tax liability	15	(1.7)	–
Provisions	22	–	(0.1)
		<hr/>	<hr/>
		(45.4)	(18.5)
		<hr/>	<hr/>
Total liabilities		(226.6)	(160.5)
		<hr/>	<hr/>
Net assets		92.6	84.1
Equity			
Share capital	23	3.5	3.5
Share premium account	25	13.2	13.2
Merger relief reserve	25	1.9	1.9
Other reserves	25	1.4	1.4
Retained earnings	25	72.6	64.1
		<hr/>	<hr/>
Total equity		92.6	84.1
		<hr/>	<hr/>

These financial statements were approved by the Board on 11 June 2012.

Philip Fellowes-Prynne

Director

Company Registration number 4321657

Consolidated cash flow statement for the year ended 31 March 2012

	<i>Note</i>	<i>Year ended 31 March</i>	
		<i>2012</i>	<i>2011</i>
		<i>(£m)</i>	
Cash flows from operating activities			
Group operating profit before amortisation and non-recurring costs		30.1	25.1
Depreciation and non-cash items		16.0	9.2
Working capital movement		(3.7)	(5.7)
Cash generated from operations	31	42.4	28.6
Non-recurring costs		(3.5)	(1.5)
Corporation tax paid		(6.4)	(5.2)
Interest received		0.3	0.4
Interest paid		(2.0)	(1.2)
Net cash received from operating activities		<u>30.8</u>	<u>21.1</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(22.8)	(16.8)
Proceeds from sale of property, plant and equipment		1.4	1.4
Payments to acquire intangible assets	13	(0.5)	(2.9)
Acquisition of subsidiaries and overdraft acquired		(18.6)	(15.9)
Net cash used in investing activities		<u>(40.5)</u>	<u>(34.2)</u>
Cash flows from financing activities			
Ordinary dividends paid	9	(4.9)	(3.9)
New finance leases		17.6	16.7
Payment of finance lease obligations		(11.0)	(6.9)
Loan received		20.0	–
Loans repaid		(17.2)	–
Net cash received from financing activities		<u>4.5</u>	<u>5.9</u>
Decrease in cash and cash equivalents		(5.2)	(7.2)
Opening cash and cash equivalents		36.2	43.4
Closing cash and cash equivalents		<u>31.0</u>	<u>36.2</u>
Reconciliation of net cash flow to movement in net (debt)/funds			
Decrease in cash and cash equivalents		(5.2)	(7.2)
Increase in finance leases		(6.6)	(9.8)
Acquired debt		(28.3)	(1.3)
Decrease in net funds in the year		<u>(40.1)</u>	<u>(18.3)</u>
Opening net funds		10.9	29.2
Closing net (debt)/funds		<u>(29.2)</u>	<u>10.9</u>

Statement of accounting policies for the May Gurney Group accounts

Nature of operations

The principal activities of the Group during the year were infrastructure support services. The Group is incorporated and domiciled in the United Kingdom and is listed on the Alternative Investment Market. The registered office is at the Group office in Trowse, Norwich, UK. The presentation currency used is GB Pound sterling and figures are quoted in millions, rounded to the nearest £100,000.

The principal accounting policies adopted in the presentation of these consolidated and Company financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with parts of the Companies Act applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments, which are recognised using accounting policies as set out below and applied consistently.

Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 April 2011.

Changes in accounting policy

The following standards and interpretations came into effect and were adopted in the current period but had no effect on the financial statements:

- IFRS 1 (amended) First-time adoption of IFRS – limited exemption from comparative IFRS 7 disclosures;
- IAS 24 Related party disclosures (revised 2009);
- IAS 32 (amendment) Financial instruments: Presentation;
- IAS 34 (amendment) Interim financial reporting; and
- IFRIC 19 Extinguishing financial liabilities with equity instruments.

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

- IFRS 1 (amended) Severe hyperinflation and Removal of fixed dates for first-time adopters;
- IFRS 7 (amended) Financial instruments: disclosures;
- IFRS 9 Financial instruments – classification and measurement;
- IFRS 10 Consolidated financial statements;
- IFRS 11 Joint arrangements;
- IFRS 12 Disclosure of interests in other entities;
- IFRS 13 Fair value measurement;

- IAS 1 Presentation of financial statements – items in other comprehensive income;
- IAS 12 (amended) Income taxes – deferred tax recovery of underlying assets;
- IAS 19 (amended) Employee benefits;
- IAS 27 Separate financial statements; and
- IAS 28 Investments in associates and joint ventures.

The May Gurney Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the May Gurney Group.

Consolidation

Subsidiaries

Subsidiaries are consolidated from the date on which control is transferred to the Group and deconsolidated from the date at which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the consideration. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable assets and liabilities acquired is recognised as goodwill.

The Group financial statements consolidate those of the Parent Company and all of its subsidiary undertakings drawn up to 31 March 2012. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through more than half of the voting rights.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the Parent Company and the non-controlling interests based on their respective ownership interests.

Jointly controlled operations

The Group has certain contractual operations with other participants to engage in joint operations that do not create an entity carrying on a trade or business of its own. The Group includes its share of assets, liabilities and cash flows in such jointly controlled operations, measured in accordance with the terms of each operation, which is usually *pro rata* to the Group's interest in the risks in the jointly controlled operation.

Jointly controlled entities

A jointly controlled entity is an entity in which the Group holds a long-term interest and which is jointly controlled by the Group and one or more other venturers under a contractual arrangement. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of post-acquisition profits or losses is recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Due to the amounts involved not being significant, they are not separately disclosed.

Inter-company transactions, balances and unrealised gains on transactions between Group companies have been eliminated on consolidation.

A separate income statement has not been presented for May Gurney Integrated Services PLC as exempted by Section 408 of the Companies Act. The profit after tax of the Company in the year was £8.3 million (2011: £3.6 million).

The Group has taken advantage of the exemption under regulation 7 of the Partnerships (Accounts) Regulations 2008 that members of a qualifying partnership do not have to publish partnership accounts if the partnership is dealt with on a consolidated basis in Group accounts prepared by a parent undertaking of the member. May Gurney WSP JV partnership has been consolidated within these Group accounts.

Goodwill and other intangible assets

Goodwill arising on consolidation represents the excess of the fair value 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 intangible asset and is reviewed for impairment annually. It is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing along the lines of the Group's operating segments. Any impairment is recognised immediately in the income statement.

Other intangible assets, which consist of an acquired order book, customer relationships, trade marks and software development costs, are stated at cost less accumulated amortisation and impairment losses. Amortisation is based on cost and the useful economic lives of these assets. Details of these useful economic lives are included in Note 13.

Costs associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the group, and that will probably generate economic benefits beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised over their estimated useful life. The MGConnect™ costs capitalised in the year are amortised over a period of four years.

Impairment

Assets that have an indefinite useful life are not subject to amortisation and are reviewed for impairment annually and when there are indications that the carrying value may not be recoverable. Assets that are subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Company investments in subsidiary undertakings

Company investments are included at cost. Provision is made for any impairment in value.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business net of Value Added Tax.

Sales of goods are recognised when goods are delivered and title has passed.

Contract revenue reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and

associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract.

Provision is made in full for estimated losses, if the costs of fulfilling the contract exceed the recoverable amount. Revenue is only recognised to the extent that it is probable that it will be recoverable. Where the outcome of a long-term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

In the case of a cost plus contract, the outcome of a contract can be estimated reliably when it is probable that the economic benefits associated with the contract will flow to the Group, and the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

Revenue from the provision of Fleet & Passenger services represents amounts receivable for vehicle hire, maintenance work and passenger services (excluding VAT) carried out in the accounting period. Income received in respect of future periods is deferred until the service is provided.

Maintenance-related income in primary lease periods is recognised so as to match the revenue against the expected cost of maintenance based on estimation techniques which use current experience.

Property, plant and equipment

Property, plant and equipment is stated at historic cost to the Group, being its purchase cost together with any incidental expenses of acquisition.

Depreciation of property, plant and equipment is calculated so as to write off their cost over their expected economic lives, residual values are reassessed on an annual basis. The principal annual rates of depreciation are as follows:

- Freehold land – not depreciated;
- Freehold buildings – between five and 50 years straight line;
- Short leasehold property – 10 per cent. straight line or life of lease if shorter; and
- Plant, vehicles and equipment – between 10 per cent. and 33 per cent. straight line.

Inventories and work- in-progress on construction contracts

Inventories are valued at the lower of cost and net realisable value. The cost of purchase is determined by means of the weighted average cost formula.

Contract work-in-progress is valued at cost plus attributable profit less foreseeable losses. Attributable profit is included when the outcome of a contract can be assessed with reasonable certainty. The excess of book value over amounts received on individual contracts is included in current trade receivables and payments received in excess of book value are included in current trade payables.

Non-recurring items

Material and non-recurring items of income and expense are disclosed in the income statement as “Non-recurring items”. Examples of items which may give rise to disclosure as “Non-recurring” include, *inter alia*, gains or losses on the disposal of businesses, investments and property, plant and equipment, costs of restructuring and reorganisation of existing businesses and asset impairments.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax payable in respect of the year is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or

deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantially enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition of other assets and liabilities (other than in a business combination) in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date.

Deferred tax is calculated based on the laws enacted or substantially enacted by the reporting date and at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

The financial instruments used by the Group comprise net funds, trade receivables and trade payables.

- (a) Loans and receivables do not carry any interest and are initially stated at their fair value and subsequently measured at amortised cost as reduced by appropriate allowance for estimated irrecoverable amounts.
- (b) Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.
- (c) Trade payables are not interest bearing and are initially stated at their fair value and subsequently measured at amortised cost.
- (d) Loans are raised for support of long-term funding of the Group's operations. They are recognised at fair value on inception. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement using an effective interest method.
- (e) Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities.
- (f) Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.
- (g) The Group has a policy of not trading in financial instruments and thus the only risks arising, in the normal course of business, are interest rates and liquidity. The Group's foreign currency risk is minimal as the volume of foreign currency transactions is not significant. The Group currently has no derivative instruments and sees no immediate requirement for any.

Accounting for financial assets

Financial assets consist of receivables, along with cash and cash equivalents.

An assessment of whether a financial asset is impaired is made at least at each reporting date. For receivables, this is based on the latest credit information available, i.e. recent counterparty defaults and external credit ratings. Financial assets that are substantially past due are also considered for impairment. All income and expense relating to financial assets are recognised in the income statement line item “Finance costs” or “Finance income”, respectively.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Group’s trade and other receivables fall into this category of financial instruments.

Individual receivables are considered for impairment when they are past due at the reporting date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry of a counterparty. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Accounting for financial liabilities

The Group’s financial liabilities include borrowings, trade and other payables (including finance lease liabilities), which are measured at amortised cost using the effective interest rate method.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument’s fair value that are reported in profit or loss are included in the income statement line items “Finance costs” or “Finance income”.

For business combinations, any changes to the consideration transferred, including contingent consideration, resulting from events after the date of the acquisition are recognised in the income statement.

Leases

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. Assets held under finance leases are recognised as assets of the Group at the lower of their fair value or the present value of the minimum lease payments and the capital elements of the commitments are shown as obligations under finance leases. Payments are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and their useful lives.

All other leases are regarded as operating leases and the related payments are charged to the income statement on a straight-line basis over the lease term.

Share-based payments

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2005 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair value of employees’ services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of certain non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to equity.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are

subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium.

Employee benefits

The Group and Company contribute to eight defined contribution pension schemes and two defined benefit pension schemes, the assets of which are held separately from those of the Group and are invested in managed funds.

In respect of the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit method, with actuarial valuations being carried out at each reporting date. Hence actuarial gains and losses are recognised in full in the period in which they occur through the statement of comprehensive income. The liability recognised in the statement of financial position is the present value of the defined benefit obligations less the fair value of plan assets. Associated interest credits are included within finance income and charges within finance costs. The current service cost incurred during the year to provide retirement benefits to employees is charged to operating profit. Pension scheme surpluses, to the extent that they are recoverable from future contributions, or deficits are recognised in full and presented on the face of the Statement of Financial Position net of related deferred tax.

In respect of the defined contribution pension schemes, the contributions paid by the Group, Company and the employees are invested within the individual funds in the month following the month of deduction. The employer contribution rates are determined by reference to an age, service or grade related scale or are at a fixed, level percentage. The amounts contributed by the Group and Company are charged to the income statement as the contributions fall due. Certain contracts require that employees transfer with protected pension rights and the Group and Company are responsible for the pension liability that exists.

May Gurney Group Limited Employee Share Ownership Trust (“ESOT”) and Employee Benefit Trust (“EBT”)

On 28 March 2008, May Gurney Group Trustees Limited, acting in its capacity as trustee of the ESOT, transferred 1,783,324 ordinary shares by way of a gift for £nil consideration to Lloyds TSB Offshore Trust Company Limited acting in its capacity as trustee of the May Gurney Integrated Services PLC Employee Benefit Trust (EBT), an offshore trust.

Shares in the Company held by the ESOT and EBT are shown as a deduction in arriving at equity funds.

Where the purchase of shares by the ESOT/EBT is financed by external bank loans, these loans are shown within current trade and other payables. Other current assets, liabilities and reserves of the ESOT/EBT are included within the statutory headings to which they relate. The ESOT/EBT are included within the Company financial statements. The ESOT/EBT have been accounted for in line with the requirements of SIC 12 which states that the Company should consolidate all Special Purpose Entities of which the ESOT/EBT are classified as such.

Dividends

Dividends are recognised in the financial statements in the period in which they are approved by the Company’s shareholders. Interim dividends are recognised in the period in which they are approved and paid.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. When recognising and measuring a provision, events occurring after the

reporting date, and before authorisation for issue, are considered to determine whether such events provide additional evidence of conditions that existed at the reporting date and should therefore be adjusted for.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Significant accounting estimates and judgements

To be able to prepare accounts according to generally accepted accounting principles, management must make estimates and assumptions that affect the asset and liability items and revenue and expense amounts recorded in the financial statements. These estimates are based on historical experience and various other assumptions that management and the Board believe are reasonable under the circumstances. The results of this form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources.

Areas requiring estimates that may significantly impact on the Group's earnings and financial position are as follows:

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy previously stated. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Further details of the estimates used are set out in Note 12.

Areas requiring critical judgement that may significantly impact on the Group's earnings and financial position are as follows:

(a) *Revenue recognition*

The Group uses the percentage-of-completion method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract.

(b) *Pension benefits*

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 28.

(c) *Share-based payments*

The weighted average fair value of options granted during the period was determined using the Trinomial pricing model. The assumptions used are detailed in Note 24.

(d) *Intangible assets*

The Group recognises certain intangible assets on acquisition. Judgements in respect of useful lives, discount rates and valuation methods affect the carrying value and amortisation charges in respect of these assets. These judgements are shown in Note 13.

(e) *Impairment of work in progress*

In assessing whether work in progress is impaired, estimates are made of future sales revenue, timing and build costs. The Group has controls in place to ensure that estimates of sales revenue are consistent, and external valuations are used where appropriate.

Notes to the accounts

1 Segmental analysis

For management purposes, the Group is currently organised into three segments – Public Sector Services (Highways Services, Environmental Services, Facility Services and Fleet & Passenger Services), Regulated Sector Services (Utility Services, Rail Services and Waterways Services) and Property. The three segments noted are those that are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) Philip Fellowes-Pryne (Chief Executive). Revenue is mostly derived from contract work.

The identification of these reportable segments has come about due to the Group's aim of aligning services more closely with the needs of its long-term clients and the nature of the work the Group delivers for them, namely delivering essential front-line maintenance and enhancement services.

	<i>For the year ended 31 March 2012</i>			
	<i>Public Sector Services</i>	<i>Regulated Sector Services</i>	<i>Property</i>	<i>Group</i>
	<i>(£m)</i>			
Revenue				
Total revenue	418.9	279.2	–	698.1
Less: between segments	(0.7)	(2.1)	–	(2.8)
External revenue	<u>418.2</u>	<u>277.1</u>	<u>–</u>	<u>695.3</u>
Sales between segments are charged at prevailing market prices				
Results per management information reviewed by the CODM				
Group operating profit before amortisation and non-recurring costs	17.8	12.3	–	30.1
Intangible assets amortisation	(2.3)	(1.9)	–	(4.2)
Non-recurring costs	(3.7)	(1.2)	–	(4.9)
Finance income				0.3
Finance costs				(2.0)
Profit before taxation				<u>19.3</u>
Taxation				(5.7)
Profit for the year per management information				<u>13.6</u>
Taxation adjustment				0.2
Profit for the year per statutory accounts				<u>13.8</u>
Segment assets and liabilities				
Total assets				
Segments	196.0	107.0	12.0	315.0
Not allocated to segments				4.2
				<u>319.2</u>
Total liabilities				
Segments	(146.9)	(73.0)	(0.5)	(220.4)
Not allocated to segments				(6.2)
				<u>(226.6)</u>
Other information				
Capital expenditure including acquisitions	68.0	2.4	–	70.4
Depreciation	12.3	4.0	0.1	16.4

As the Group's activities are almost entirely domestic, no geographical segmental analysis is required.

No customers (2011: one) in the Regulated Sector Services segment accounted for over 10 per cent. of total revenue (2011: 12 per cent.).

	<i>For the year ended 31 March 2011</i>			
	<i>Public Sector Services</i>	<i>Regulated Sector Services</i>	<i>Property</i>	<i>Group</i>
	<i>(£m)</i>			
Revenue				
Total revenue	377.7	196.6	–	574.3
Less: between segments	(1.4)	(1.5)	–	(2.9)
External revenue	<u>376.3</u>	<u>195.1</u>	<u>–</u>	<u>571.4</u>
Sales between segments are charged at prevailing market prices				
Results per management information reviewed by the CODM				
Group operating profit before amortisation and non-recurring costs				
	17.3	7.8	–	25.1
Intangible assets amortisation	(1.4)	(0.7)	–	(2.1)
Non-recurring costs	–	(3.4)	–	(3.4)
Finance income				0.4
Finance costs				(1.2)
Profit before taxation				<u>18.8</u>
Taxation				(5.7)
Profit for the year per management information				<u>13.1</u>
Taxation adjustment				0.2
Profit for the year per statutory accounts				<u>13.3</u>
Segment assets and liabilities				
Total assets				
Segments	117.7	105.1	11.8	234.6
Not allocated to segments				10.0
				<u>244.6</u>
Total liabilities				
Segments	(86.7)	(63.6)	(0.6)	(150.9)
Not allocated to segments				(9.6)
				<u>(160.5)</u>
Other information				
Capital expenditure including acquisitions	15.8	7.8	–	23.6
Depreciation	7.2	1.6	–	8.8

As the Group's activities are almost entirely domestic, no geographical segmental analysis is required.

2 Consolidated May Gurney Group operating profit before amortisation and non-recurring items

	<i>Year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
Depreciation (Note 11) – owned	6.5	3.9
– finance lease and hire purchase	9.9	4.9
Profit on sale of plant and machinery	(0.5)	(0.2)
(Profit)/loss on sale of freehold land and buildings	(0.1)	0.1
Directors' emoluments (Note 7)	1.0	0.9
Share-based payments	0.1	(0.3)
Fees payable to the Company's auditor for the audit of the annual accounts	–	–
Fees payable to the Company's auditor and its associates for other services		
– audit of the Company's subsidiaries	0.1	0.1
– tax advisory and compliance services	–	–
– corporate finance services	–	–
Amounts payable under operating leases		
– land and buildings	2.7	2.5
– plant and machinery	5.6	6.2

Included within “other non-recurring costs” is an amount of £0.1 million which the Group paid to its auditors for vendor due diligence work for Senturion Group Limited, in connection with its acquisition by May Gurney Limited.

3 Other non-recurring costs

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
Internal reorganisation costs	2.9	–
Senturion acquisition and integration costs	2.0	–
Geotechnical business closure costs	–	1.6
Rail fabrication business closure costs	–	0.3
Turriff acquisition costs	–	1.5

During the year, the Group consolidated its trading operations into two divisions, Public Sector Services and Regulated Sector Services. Internal reorganisation costs of £2.9 million were incurred in the year in relation to redundancy and consultancy-related expenditure.

On 9 November 2011, the Group acquired 100 per cent. of the issued share capital of Senturion Group Limited, trading as TransLinc, a market-leading provider of specialist Fleet & Passenger services to UK local authorities (Note 27).

During the prior year, the May Gurney Board reached a decision to close the Group's non-core geotechnical and rail fabrication businesses in line with its stated strategy to focus on long-term contracts with clients in the public and regulated sectors.

On 21 January 2011, the Group acquired 100 per cent. of the issued share capital of Turriff Group Limited, one of Scotland's largest utility infrastructure maintenance companies.

4 Revenue

The following significant categories of revenue were recognised in the year.

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	<i>(£m)</i>
Revenue arising from:		
Sale of goods	4.5	5.0
Contract revenue	690.8	566.4
	<u>695.3</u>	<u>571.4</u>

5 Finance income and costs

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	<i>(£m)</i>
Revenue arising from:		
Sale of goods	4.5	5.0
Contract revenue	690.8	566.4
	<u>695.3</u>	<u>571.4</u>
Finance income		
Interest receivable from short-term bank deposits	0.2	0.3
Other interest	–	0.1
Finance income in relation to defined benefit pension scheme	0.1	–
	<u>0.3</u>	<u>0.4</u>
Finance costs		
Finance charges payable under finance leases	(1.5)	(1.0)
Finance cost in relation to the change in value of financial assets	(0.1)	(0.1)
Other interest	(0.4)	(0.1)
	<u>(2.0)</u>	<u>(1.2)</u>

6 Staff numbers and costs

The average number of people (including directors) employed by the Group during the year, categorised by segment, was as follows:

	<i>2012</i>	<i>2011</i>
	<i>No. employees</i>	<i>No. employees</i>
Public Sector Services	3,684	3,045
Regulated Sector Services	1,978	1,443
Group and Shared Services	261	220
	<u>5,923</u>	<u>4,708</u>

The aggregate payroll costs of these employees were:

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
Wages and salaries	150.9	128.3
Social security costs	15.2	12.6
Group pension costs (Note 28)	1.0	1.1
Other pension costs (Note 28)	6.9	4.0
	<u>174.0</u>	<u>146.0</u>

The average number of people (including directors) employed by the Company during the year was 13 (2011: 8), with an aggregate payroll cost of £1.3 million (2011: £1.1 million).

Key management remuneration has been disclosed per Note 32.

7 Emoluments of May Gurney Directors

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
Directors' emoluments	<u>1.0</u>	<u>0.9</u>

An analysis of directors' emoluments and pension entitlements (including those of the highest-paid director) and their interests in the share capital of the Company is contained in the directors' remuneration report on pages 56 to 61 of the 2012 May Gurney Annual Report and Accounts.

8 Taxation

(a) Analysis of tax charge:

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
Current tax		
Corporation tax on profits for the year	6.1	6.2
Under provision in respect of prior years	0.6	0.1
Total current tax	<u>6.7</u>	<u>6.3</u>
Deferred tax		
Origination and reversal of temporary differences	0.5	0.4
Tax effect of intangible assets amortisation	(1.0)	(0.6)
Over provision in respect of prior years	(0.7)	(0.6)
Total deferred tax	<u>(1.2)</u>	<u>(0.8)</u>
Total tax charge for the year	<u>5.5</u>	<u>5.5</u>

(b) **Factors affecting the tax charge:**

The taxation assessed for the year is higher than the standard rate of corporation tax in the UK (26 per cent.).

The charge is affected by a number of factors in addition to the standard UK rate. The differences are explained as follows:

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
Profit before tax	19.3	18.8
Profit before tax multiplied by standard rate of corporation tax in the UK of 26 per cent. – expected charge	5.0	5.3
Effects of:		
Expenses not deductible for tax purposes	0.7	0.6
Change in future tax rate	(0.1)	0.1
Adjustments to tax charge in respect of previous year (current and deferred)	(0.1)	(0.5)
Total tax charge for year (Note 8(a))	<u>5.5</u>	<u>5.5</u>

The effective tax rate, excluding the impact of non-recurring items, for the year is 27.2 per cent. (2011: 28.4 per cent.).

The Finance Act 2011 included legislation reducing the main rate of corporation tax from 26 per cent. to 25 per cent. with effect from 1 April 2012. Subsequently, the Finance (No 4) Bill 2010-2012 published on 28 March 2012, included a further reduction in the corporation tax rate from 25 per cent. to 24 per cent. which was passed by a House of Commons resolution on 26 March 2012 (to have effect under the provisions of the Provisional Collection of Taxes Act 1968). The effect of the change in the rate of corporation tax was to reduce the net deferred tax liability provided at 31 March 2012 by £0.1 million, with a corresponding increase in profit for the year but with no effect on other comprehensive income.

Proposed further reductions to the main rate of corporation tax by 1 per cent. per annum to 22 per cent. by 1 April 2014 are expected to be enacted separately each year. As these had not been enacted at the balance sheet date, the effect of these proposed reductions has not been included in these financial statements. The overall effect of the proposed further rate changes from 24 per cent. to 22 per cent., if applied to the net deferred tax balance at 31 March 2012, would be to reduce the net deferred tax liability by approximately £0.1 million.

9 Dividends

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
Amounts recognised as distributions to equity holders in the period:		
Final dividend paid for the year ended 31 March 2011 of 4.52 pence per share	3.0	2.5
Interim dividend paid for the year ended 31 March 2012 of 2.79 pence per share	1.9	1.4
	<u>4.9</u>	<u>3.9</u>

The proposed final dividend of 5.63 pence per share had not been approved at the reporting date and so has not been included as a liability in these financial statements. If approved by the shareholders, the dividend will be paid on 31 July 2012 to holders of ordinary shares on the register at the close of business on 22 June 2012.

The Trustee of the May Gurney Group Limited Employee Share Ownership Trust has waived its right to receive any dividends in respect of shares held in the Trust.

10 Earnings per share

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
Profit for the year	13.8	13.3
Basic/diluted earnings	13.8	13.3
Adjustments to basic earnings		
Intangible assets amortisation	4.2	2.1
Other non-recurring costs	4.9	3.4
Tax on non-recurring items	(2.2)	(1.4)
Underlying earnings	20.7	17.4
<i>Number of shares</i>	<i>Number</i>	<i>Number</i>
Weighted average number of ordinary shares for the purposes of basic earnings per share	67,246,350	67,114,100
Effect of dilutive potential ordinary shares	2,050,704	1,652,921
Weighted average number of ordinary shares for the purposes of diluted earnings per share	69,297,054	68,767,021
Weighted average number of ordinary shares for the purposes of underlying earnings per share	70,236,016	70,236,016
	<i>Pence</i>	<i>Pence</i>
Underlying earnings per share	29.47	24.77
Basic earnings per share	20.52	19.82
Diluted earnings per share	19.91	19.34

Underlying earnings per share, before non-recurring items, has been disclosed to give a clearer understanding of the Group's underlying trading performance. It has been calculated using the underlying earnings figures above and an adjusted weighted average number of ordinary shares which includes those shares held by the Group Employee Share Ownership Trust.

Diluted earnings per share is the basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the number of options outstanding during the year (see Note 24).

11 Property, plant and equipment

	<i>Year ended 31 March 2012</i>			<i>Total</i>
	<i>Freehold land and buildings</i>	<i>Short leasehold property (£m)</i>	<i>Plant, vehicles and equipment</i>	
Group				
Cost				
At 1 April 2010	2.5	0.5	48.7	51.7
Acquisition of subsidiary undertakings	–	–	6.7	6.7
Additions	–	1.2	15.7	16.9
Disposals	(0.2)	–	(5.6)	(5.8)
At 1 April 2011	2.3	1.7	65.5	69.5
Acquisition of subsidiary undertakings (Note 27)	1.4	–	46.2	47.6
Inter-Group transfers	1.4	–	(1.4)	–
Additions	–	0.8	22.0	22.8
Disposals	–	–	(10.5)	(10.5)
At 31 March 2012	5.1	2.5	121.8	129.4
Depreciation				
At 1 April 2010	0.9	0.4	24.7	26.0
Charge for year	–	0.1	8.7	8.8
Disposals	–	–	(4.5)	(4.5)
At 1 April 2011	0.9	0.5	28.9	30.3
Charge for year	0.1	0.1	16.2	16.4
Disposals	–	–	(9.7)	(9.7)
At 31 March 2012	1.0	0.6	35.4	37.0
Net book value at 31 March 2012	4.1	1.9	86.4	92.4
Net book value at 31 March 2011	1.4	1.2	36.6	39.2

Included in the total net book value of plant, vehicles and equipment is £54.9 million (2011: £19.8 million) in respect of assets acquired under finance leases and hire purchase agreements. Depreciation for the year on these assets was £9.9 million (2011: £4.9 million).

12 Goodwill

	<i>For the year ended 31 March 2012 (£m)</i>
Group	
Cost and net book value	
At 1 April 2010	35.2
Acquisition of subsidiary	6.9
At 1 April 2011	42.1
Acquisition of subsidiary (Note 27)	18.2
At 31 March 2012	60.3

The carrying value of goodwill has been allocated by operating segment as follows:

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
Public Sector Services	35.2	17.0
Regulated Sector Services	25.1	25.1
	<u>60.3</u>	<u>42.1</u>

The carrying values of the Group's goodwill are reassessed at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If analysis indicates that the carrying value is too high, then this is reduced to its recoverable amount which is the higher of fair value less costs to sell and its value in use.

Value in use is calculated using pre-tax cash flow projections based on financial budgets and business plans covering a four-year period, which take into account historical trends and market conditions, and which have been approved by the Board. The cash flow forecasts are adjusted by an appropriate discount rate derived from our cost of capital plus a reasonable risk premium at the date of valuation.

The key assumptions for both cash-generating units are: operating margin (4-5 per cent.); average annual growth rate (0-7 per cent.); and pre-tax discount rate (10 per cent.). The average growth rates used are consistent with forecasts included in industry reports.

The Group's impairment review is sensitive to changes in the key assumptions used, in particular the growth rate and discount rate. However, based on the Group's sensitivity analysis, a reasonable change in a single assumption will not cause impairment in any of the Group's cash-generating units.

13 Other intangible assets

*For the year ended
31 March 2012
(£m)*

Group	
Valuation	
At 1 April 2010	19.9
Internal development	2.9
Additions – acquisition of subsidiary	5.0
At 1 April 2011	27.8
Internal development	0.5
Additions – acquisition of subsidiary (Note 27)	11.1
At 31 March 2012	39.4
Amortisation	
At 1 April 2010	14.3
Charge for year	2.1
At 1 April 2011	16.4
Charge for year	4.2
At 31 March 2012	20.6
Net book value at 31 March 2012	18.8
Net book value at 1 April 2011	11.4

Other intangible assets valuation comprises:

	<i>Year acquired</i>	<i>Carrying value</i>	<i>Valuation</i>	<i>UEL *years</i>
		<i>(£m)</i>		
TJ Brent Order book ⁽¹⁾	2005	–	2.1	2
TJ Brent Customer relationships ⁽¹⁾	2005	0.4	6.4	10
AC Chesters Order book ⁽¹⁾	2007	–	1.2	3
AC Chesters Customer relationships ⁽¹⁾	2007	0.1	0.3	8
FDT Order book ⁽¹⁾	2008	–	0.6	3
FDT Customer relationships ⁽¹⁾	2008	–	0.5	5
Willows Order book ⁽¹⁾	2008	–	0.3	1.5
Willows Customer relationships ⁽¹⁾	2008	–	1.0	4
SHWRC Business Order book ⁽²⁾	2008	1.0	3.7	8.5
ECT Order book ⁽²⁾	2009	0.8	3.3	7
ECT Customer relationships ⁽²⁾	2009	–	0.5	7
MGConnect™ software development	2011	2.8	3.4	4
Turriff Order book ⁽¹⁾	2011	0.6	1.7	3
Turriff Customer relationships ⁽¹⁾	2011	2.7	3.1	5
Turriff Trademark ⁽¹⁾	2011	0.1	0.2	1
TransLinc Order book ⁽²⁾	2012	5.0	5.7	7
TransLinc Customer relationships ⁽²⁾	2012	5.3	5.4	12
		18.8	39.4	

Note:

(1) Regulated Sector Services operating segment

(2) Public Sector Services operating segment

* UEL = Original Useful Economic Life

In the current and prior year the Group incurred costs in developing software for the MGConnect™ project which is the Group's integrated web-enabled technology platform that covers all areas of the Group's activities.

For the valuations above the purchase price allocation method was used, which required identification and fair value estimation of the individual intangible assets acquired. In order to arrive at an estimate of fair value, the income approach was used which values the cash flows that the asset might reasonably be expected to generate. The TransLine valuations completed in the year were based on financial projections prepared at the time of acquisition and a weighted average cost of capital of 13.9 per cent.

14 Investments

	<i>Shares in subsidiary undertakings</i>	<i>Total 2012 (£m)</i>	<i>Total 2011</i>
Company			
Cost and net book value			
At beginning and end of year	20.3	20.3	20.3

Refer to Note 30 for the list of subsidiary entities.

15 Deferred tax (liability)/asset

	<i>For the year ended 31 March</i>			
	<i>Group 2012</i>	<i>Company 2012</i>	<i>Group 2011</i>	<i>Company 2011</i>
	<i>(£m)</i>			
At beginning of year	0.9	0.7	1.1	0.9
Effect of reduction in future tax rate to 24 per cent. (2011: 26 per cent.)	0.1	–	(0.1)	–
Acquisition of subsidiaries	(3.6)	–	(1.0)	–
Debited direct to equity	(0.3)	(0.3)	–	(0.2)
Income statement credit	1.2	0.1	0.9	–
At end of year	<u>(1.7)</u>	<u>0.5</u>	<u>0.9</u>	<u>0.7</u>

Deferred taxation at 24 per cent. (2011: 26 per cent.) is in respect of:

	<i>For the year ended 31 March</i>			
	<i>Group 2012</i>	<i>Company 2012</i>	<i>Group 2011</i>	<i>Company 2011</i>
	<i>(£m)</i>			
Depreciation in excess of capital allowances	0.2	–	0.1	–
Other temporary differences	–	–	0.9	–
Intangible assets acquired	(3.9)	–	(2.3)	–
Share-based payments	1.8	0.3	2.1	0.6
Defined benefit pension scheme	0.2	0.2	0.1	0.1
Deferred tax (liability)/asset	<u>(1.7)</u>	<u>0.5</u>	<u>0.9</u>	<u>0.7</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

16 Inventories

	<i>Group</i> 2012	<i>Group</i> 2011
	(<i>£m</i>)	
Raw materials and consumables	0.4	0.3
Finished goods and goods for resale	4.1	4.1
	<u>4.5</u>	<u>4.4</u>

During the year, £11.5 million (2011: £9.1 million) of inventories was recognised as an expense.

17 Trade and other receivables

	<i>For the year ended 31 March</i>			
	2011		2010	
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	(<i>£m</i>)			
Trade receivables	95.1	–	91.0	–
Amounts due from contract customers	5.9	–	7.9	–
Amounts owed by subsidiary undertakings	–	11.4	–	2.8
Other receivables	2.1	0.3	4.6	–
Prepayments and accrued income	9.1	0.1	6.9	0.1
	<u>112.2</u>	<u>11.8</u>	<u>110.4</u>	<u>2.9</u>

Trade and other receivables are initially stated at their fair value and subsequently measured at amortised cost as reduced by appropriate allowance for estimated irrecoverable amounts. The May Gurney Directors consider that the carrying values of current trade and other receivables approximate their fair values.

Amounts due from contract customers relates to value in excess of cash received recognised on long-term contracts. At 31 March 2012 there were three contracts each being accounted for as a long-term contract (2011: three).

Trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be potentially impaired and a provision of £0.7 million (2011: £0.5 million) has been recorded accordingly.

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	<i>For the year ended 31 March</i>			
	2012		2011	
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	(<i>£m</i>)			
Not more than three months	7.7	–	3.9	–
More than three months but not more than six months	0.8	–	0.8	–
	<u>8.5</u>	<u>–</u>	<u>4.7</u>	<u>–</u>

The movement in the provision for impairment of trade receivables is as follows:

	<i>For the year ended 31 March</i>			
	2012		2011	
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Balance at 1 April 2011	0.5	–	0.4	–
Charged to the income statement				
– additional provisions	0.5	–	0.4	–
– unused amounts reversed	(0.3)	–	(0.3)	–
Balance at 31 March 2012	<u>0.7</u>	<u>–</u>	<u>0.5</u>	<u>–</u>

The ageing of the impaired receivables is as follows:

	<i>For the year ended 31 March</i>			
	2012		2011	
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Six to nine months	0.3	–	0.2	–
Nine to twelve months	0.2	–	0.1	–
Over twelve months	0.2	–	0.2	–
	<u>0.7</u>	<u>–</u>	<u>0.5</u>	<u>–</u>

Exposure to credit risk is disclosed in Note 20.

18 Cash and cash equivalents

	<i>For the year ended 31 March</i>			
	2012		2011	
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Cash at bank and in hand	30.5	3.0	20.9	3.5
Short-term bank deposits	0.5	0.1	15.3	5.1
	<u>31.0</u>	<u>3.1</u>	<u>36.2</u>	<u>8.6</u>

The carrying amount of cash and cash equivalents approximates their fair value.

19 Trade and other payables

	<i>For the year ended 31 March</i>			
	2012		2011	
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>(£m)</i>			
Amounts due to contract customers	6.0	–	3.9	–
Trade payables	89.7	0.1	80.2	–
Contingent consideration	5.0	–	6.0	–
Other tax and social security	17.8	0.8	14.8	1.0
Other payables	8.8	0.1	16.3	0.2
Accruals and deferred income	13.9	0.4	11.5	0.2
	<u>141.2</u>	<u>1.4</u>	<u>132.7</u>	<u>1.4</u>

Trade and other payables are initially stated at their fair value and subsequently measured at amortised cost. The May Gurney Directors consider that the carrying values of current trade and other payables approximate their fair values.

Amounts due to contract customers relates to cash received in excess of value recognised.

During the year, the Group agreed with the vendor of Turriff Group Limited in respect of the £1 million contingent consideration which was payable on determination of the completion EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) for the year ended 31 December 2010 for Turriff Group.

20 Financial Instruments

Capital risk management

The Group manages its capital to ensure its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group comprises equity attributable to equity holders of May Gurney Integrated Services PLC consisting of issued ordinary share capital, reserves and retained earnings as disclosed in Notes 23 and 25 and cash and cash equivalents as disclosed in Note 18.

The Group maintains or adjusts its capital structure through the payment of dividends to shareholders. The Group's policy is to carry no significant long-term debt, other than finance leases.

The Group's overall capital risk management strategy remains unchanged from 2011.

Financial risk management

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

The Group's finance department manages the principal financial risks within policies and operating parameters approved by the Board.

Interest rate risk

Interest rate risk arises on some of the Group's obligations under finance leases as some interest rates are fixed at the start of the lease and some are floating. A 1 per cent. increase/decrease in the floating rate would lead to a £0.3 million increase/decrease in the Group's finance costs.

Interest rate risk arises on the Group's cash and cash equivalents. A 1 per cent. increase/decrease in the Bank of England base rate would lead to a £0.3 million (2011: £0.4 million) increase/decrease in the Group's finance income.

Credit risk

Exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, namely cash and cash equivalents and trade and other receivables.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that all financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. An analysis of amounts that are past due but not impaired is shown in Note 17.

None of the Group's financial assets is secured by collateral or other credit enhancements.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high-quality external credit ratings.

The Group has no significant concentration of credit risk in respect of amounts due from contract customers or trade receivable balances at the reporting date, with exposure spread over a number of customers and across the Group's operating segments.

Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection.

The Group maintains cash to meet its liquidity requirements for up to 30-day periods. Funding in regards to long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

Commodity price risk

Through its environmental services contracts, the Group has some exposure to fluctuations in recyclable commodity prices. Where possible, the Group seeks to mitigate the risk by passing on the risk and reward of price fluctuations to clients and through the use of cap and collar agreements with buyers of recyclable commodities. The fair value of such contracts is not considered material as a limited amount of recyclable material is held at the end of the year and as such is not recognised in the statement of financial position.

Foreign currency risk

The Group does not have significant foreign currency transactions and exposure to foreign currency risk is therefore minimal. Accordingly, these financial statements do not include any sensitivity analysis in respect of currency risk.

Price risk

The May Gurney Directors do not consider there to be any price risk relating to equity instruments and hence no need for any related disclosures.

Categories of financial instruments

Group	Financial liabilities at 2012				Financial liabilities at 2011			
	Loans and receivables	Non-financial assets	Financial liabilities at amortised cost	Non-financial liabilities	Loans and receivables	Non-financial assets	Financial liabilities at amortised cost	Non-financial liabilities
	(£m)							
Financial assets								
Cash at bank	31.0	–	–	–	36.2	–	–	–
Trade receivables – current	95.1	–	–	–	91.0	–	–	–
Other receivables – current	8.0	–	–	–	12.5	–	–	–
Prepayments	–	9.1	–	–	–	6.9	–	–
Total	134.1	9.1	–	–	139.7	6.9	–	–
Financial liabilities								
Trade payables	–	–	(89.7)	–	–	–	(80.2)	–
Other liabilities – current	–	–	(14.8)	–	–	–	(20.2)	–
Other liabilities – non-current	–	–	–	–	–	–	–	(0.1)
Accruals	–	–	(13.9)	–	–	–	(11.5)	–
VAT and taxation payables	–	–	–	(20.9)	–	–	–	(16.8)
Contingent consideration	–	–	(5.0)	–	–	–	(6.0)	–
Borrowings – current	–	–	(20.0)	–	–	–	–	–
Total	–	–	(143.4)	(20.9)	–	–	(117.9)	(19.9)
Net	134.1	9.1	(143.4)	(20.9)	139.7	6.9	(117.9)	(16.9)

Company	2012				2011			
	Loans and receivables	Non- financial assets	Financial liabilities at amortised cost	Non- financial liabilities	Loans and receivables	Non- financial assets	Financial liabilities at amortised cost	Non- financial liabilities
	(£m)							
Financial assets								
Cash at bank	3.1	–	–	–	8.6	–	–	–
Other receivables	0.3	–	–	–	–	–	–	–
Prepayments	–	0.1	–	–	–	0.1	–	–
VAT and taxation receivables	–	0.5	–	–	–	0.4	–	–
Investments in subsidiaries	–	20.3	–	–	–	20.3	–	–
Total Financial liabilities	3.4	20.9	–	–	8.6	20.8	–	–
Trade payables	–	–	(0.1)	–	–	–	–	–
Other liabilities – current	–	–	(0.1)	–	–	–	(0.2)	–
Accruals	–	–	(0.4)	–	–	–	(0.2)	–
VAT and taxation payables	–	–	–	(0.8)	–	–	–	(1.0)
Total	–	–	(0.6)	(0.8)	–	–	(0.4)	(1.0)
Net	3.4	20.9	(0.6)	(0.8)	8.6	20.8	(0.4)	(1.0)

Maturity of the Group's financial liabilities

	2012			2011		
	Trade and other payables	Finance leases & borrowings	Total	Trade and other payables	Finance leases & borrowings	Total
	(£m)					
Due within one year	118.4	37.9	156.3	111.9	8.3	120.2
Due within one to two years	–	15.2	15.2	–	5.9	5.9
Due within two to five years	–	26.4	26.4	–	13.8	13.8
Due after five years	–	3.3	3.3	–	–	–
	118.4	82.8	201.2	111.9	28.0	139.9

The above contractual maturities reflect the gross cash flows which may differ to the carrying values of the liabilities at the reporting date.

21 Obligations under finance leases and borrowings

For the year ended 31 March
2012 2011
(£m)

Finance lease and hire purchase obligations

Repayable: within one year	16.9	7.3
Repayable: between two and five years	40.0	18.0
Repayable: after more than five years	3.3	–
	60.2	25.3

The net obligations under finance lease and hire purchase agreements of £60.2 million (2011: £25.3 million) are secured on the assets acquired. The May Gurney Directors consider that there is no material difference between the carrying value and the fair value of finance lease obligations.

The gross obligations under finance lease and hire purchase agreements are £62.8 million (2011: £28.0 million).

During the year, finance lease obligations totalling £28.3 million (2011: £1.3 million) were acquired with the new subsidiary undertakings.

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
Borrowings – bank loan		
Repayable: within one year	20.0	–
Repayable: between two and five years	–	–
Repayable: after more than five years	–	–
	<u>20.0</u>	<u>–</u>

During the year, the Group entered into a revolving-loan facility in connection with the acquisition of Senturion Group.

22 Provisions and other liabilities

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
At the beginning of year	0.1	0.1
Credit for the year	(0.1)	–
At end of year	<u>–</u>	<u>0.1</u>

The above provisions comprise £nil (2011: £0.1 million) in respect of site reinstatement obligations where the Group was formerly engaged in the excavation of sand and aggregates and other site reinstatement obligations.

23 Share capital

	<i>For the year ended 31 March</i>	
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
Authorised		
Equity shares		
Ordinary 5 pence shares	<u>6.8</u>	<u>6.8</u>
Issued and fully paid		
Equity shares		
Ordinary 5 pence shares	<u>3.5</u>	<u>3.5</u>
Issued and fully paid		
Equity shares		
Ordinary 5 pence shares	<u>3.5</u>	<u>3.5</u>
	<i>Number</i>	<i>Number</i>
Authorised Ordinary 5 pence shares	<u>135,000,00</u>	<u>135,000,000</u>
Issued ordinary 5 pence shares	<u>70,236,016</u>	<u>70,236,016</u>

24 Share-based payments

The following expense was charged in respect of the Group's share-based incentive schemes:

	<i>For the year ended 31 March</i>	
	<i>Group</i>	<i>Group</i>
	<i>2012</i>	<i>2011</i>
	<i>(£m)</i>	
LTIP	–	0.1
Sharesave	–	0.3
CSOP & other schemes	0.1	(0.1)
Total	<u>0.1</u>	<u>0.3</u>

For options granted post-flotation (June 2006), independent valuations have been used to determine the fair values for share-based payments.

The fair values and assumptions used were as follows:

	<i>LTIP 09</i>	<i>LTIP 10</i>	<i>LTIP 11</i>	<i>CSOP 09</i>	<i>CSOP 10</i>	<i>CSOP 11</i>	<i>Deferred bonus 10</i>	<i>Deferred bonus 11</i>	<i>Sharesave 09</i>	<i>Sharesave 10</i>	<i>Sharesave 11</i>	<i>Stand alone option 06</i>	<i>Stand alone option 07</i>
Price model	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial	Trinomial
Grant date	8 Jul 09	8 Jul 10	7 July 11	8 Jul 09	8 Jul 10	7 Jul 11	8 Jul 10	7 Jul 11	12 Aug 09	6 Aug 10	6 Aug 11	12 Mar 07	25 Jul 07
Share price at grant	161.00p	192.00p	282.00p	161.00p	192.00p	282.00p	192.00p	282.00p	175.00p	198.00p	273.00p	330.00p	335.50p
Exercise price	Nil	Nil	Nil	161.00p	192.00p	282.00p	Nil	Nil	139.00p	159.00p	219.00p	330.00p	335.50p
Option life	10 years	10 years	10 years	10 years	10 years	10 years	3 years	3 years	3.6 years	3.6 years	3.6 years	10 years	10 years
Expected vesting life	3 years	3 years	3 years	3 years	3 years	3 years	2 years	2 years	3.1 years	3.1 years	3.1 years	2 years	3 years
Risk-free rate	3.73%	3.22%	3.30%	3.73%	3.22%	3.30%	1.16%	1.13%	3.03%	1.98%	1.42%	4.80%	5.30%
Expected volatility	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	25%	25%
Expected dividend yield	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	2%	2%
Value per option	147.00p	175.00p	264.00p	52.00p	63.00p	103.00p	180.00p	272.00p	36.00p	39.00p	90.00p	87.06p	95.40p

For 2003 Scheme options, which were granted prior to flotation, the fair values of services received in return for share-based payments were measured by the fair value of shares received and options granted. Owing to the absence of a market for the Company's shares at the time of grant, the Company used share valuation methodology which looks at comparator listed companies and adjusts for the lack of an active market by means of discounting their quoted price earnings ratios. The risk-free rate of return was assumed to be 5 per cent.

May Gurney Integrated Services Unapproved Share Option Scheme (the "2003 Scheme")

The 2003 Scheme was adopted in 2003 and ceased issuing new options on the flotation of the Company. Under the Scheme, options were granted to May Gurney executive directors and to senior and middle management. The exercise of some of the options granted under the 2003 Scheme was conditional upon the achievement of objective performance targets set by the Trustee of the ESOT at the time of grant. Options granted under the 2003 Scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company's subsidiaries. Further details of the Scheme are included in the May Gurney Directors' remuneration report.

Options granted, exercised and forfeited under the Scheme were as follows:

	<i>2012</i>	<i>2012</i>	<i>2011</i>	<i>2011</i>
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	376,500	13.58p	596,500	26.01p
Granted	–	–	–	–
Exercised	–	–	(29,000)	13.58p
Lapsed	–	–	(200,000)	50.64p
Outstanding at end of year	<u>367,500</u>	<u>13.58p</u>	<u>376,500</u>	<u>13.58p</u>
Exercisable at the end of the year	<u>367,500</u>	<u>13.58p</u>	<u>376,500</u>	<u>13.58p</u>

No options were exercised in the year. The weighted average share price at date of exercise in 2011 was 203p.

The May Gurney Long-Term Incentive Plan ("LTIP")

The LTIP scheme is a long-term incentive plan for May Gurney executive directors and senior managers. The exercise of awards granted under the LTIP will in normal circumstances be conditional upon the achievement of objective performance targets set at the time of grant. Such performance targets shall be measured over a performance period. Options granted under the LTIP Scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company's subsidiaries.

Further details of the Scheme are included in the May Gurney Directors' remuneration report. Options granted, exercised and forfeited under the Scheme were as follows:

	<i>2012</i>	<i>2012</i>	<i>2011</i>	<i>2011</i>
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	1,409,212	–	949,826	–
Granted	446,146	–	689,402	–
Exercised	–	–	–	–
Lapsed	(1,053,957)	–	(230,016)	–
Outstanding at end of year	<u>801,401</u>	<u>–</u>	<u>1,409,212</u>	<u>–</u>
Exercisable at the end of the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The May Gurney Savings Related Share Option Scheme (“Sharesave”)

The Sharesave Scheme was established in July 2007. Participation is offered to all employees of the Group who have been employed for a continuous period which is determined by the Board. Under the Sharesave contract participating employees save a regular sum each month for three years of not less than £5 nor more than £250 per month.

Options to acquire ordinary shares in the capital of the Company will be granted to eligible employees who enter into a Sharesave contract. The number of options will be that number of shares which have an aggregate option price not exceeding the projected proceeds of the Sharesave contract including any bonus. The option price per share will not be less than 80 per cent. of the market value of an ordinary share on the day on which invitations to apply for options are issued.

The requirement to make regular saving contributions under the Scheme are non-vesting conditions. When an employee chooses whether to meet a non-vesting condition, and fails to do so, such a failure is treated as a cancellation and therefore an acceleration of the share-based payment charge.

Options granted under the Sharesave Scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company’s subsidiaries. Further details of the Scheme are included in the May Gurney Directors’ remuneration report. Options granted, exercised and forfeited under the Scheme were as follows:

	<i>2012</i>	<i>2012</i>	<i>2011</i>	<i>2011</i>
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	2,347,251	173.51p	1,891,561	179.05p
Granted	688,673	219.00p	852,739	159.00p
Exercised	(391,950)	189.34p	(6,572)	155.90p
Lapsed	(717,815)	212.69p	(390,477)	169.23p
Outstanding at end of year	<u>1,926,159</u>	<u>171.96p</u>	<u>2,347,251</u>	<u>173.51p</u>
Exercisable at the end of the year	–	–	–	–

The May Gurney Company Share Ownership Plan (“CSOP”)

The CSOP Scheme is a long-term incentive plan for senior managers. The exercise of awards granted under the CSOP will, in normal circumstances, be conditional upon the achievement of objective performance targets set at the time of grant. Such performance targets shall be measured over a performance period. Options granted under the CSOP Scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company’s subsidiaries. Options granted, exercised and forfeited under the Scheme were as follows:

	<i>2012</i>	<i>2012</i>	<i>2011</i>	<i>2011</i>
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of year	314,887	208.13p	259,881	257.46p
Granted	63,828	282.00p	72,912	192.00p
Exercised	–	–	–	–
Forfeited	(121,288)	204.63p	(17,906)	223.38p
Outstanding at end of year	<u>257,427</u>	<u>285.57p</u>	<u>314,887</u>	<u>208.13p</u>
Exercisable at the end of the year	–	–	–	–

The May Gurney Deferred Share Bonus Plan (“Deferred Bonus Scheme”)

The Deferred Bonus Scheme is a long-term incentive plan for May Gurney executive directors and senior managers, whereby one third of the option holders’ profit share bonus in 2010 and 2011 was converted into share options. Options granted under the Deferred Bonus Scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company’s subsidiaries. Options granted, exercised and forfeited under the Scheme were as follows:

	2012 Number	2012 Weighted average exercise price	2011 Number	2011 Weighted average exercise price
Outstanding at beginning of year	38,111	–	–	–
Granted	60,635	–	45,500	–
Exercised	–	–	–	–
Forfeited	(15,662)	–	(7,389)	–
Outstanding at end of year	83,084	–	38,111	–
Exercisable at the end of the year	–	–	–	–

Other schemes

Options granted, exercised and forfeited under other schemes were as follows:

<i>Date of award</i>	<i>Market value at date of award</i>	<i>Earliest vesting date</i>	<i>Awarded at 1 April 2011</i>	<i>Granted in year</i>	<i>Vested in year</i>	<i>Lapsed in year</i>	<i>Awarded to 31 March 2012</i>
12 March 2007	330.0p	12 Mar 09	151,515	–	–	–	151,515
25 July 2007	335.5p	25 Jul 10	5,961	–	–	–	5,961

25 Reserves

	<i>For the year ended 31 March</i>			
	2012 Group	2012 Company (£m)	2011 Group	2011 Company
Share premium account				
At beginning and end of year	13.2	13.2	13.2	13.2
Merger relief reserve				
At beginning and end of year	1.9	1.9	1.9	1.9
Retained earnings				
At beginning of year	64.1	11.1	53.4	10.7
Retained profit/(loss) for the year	13.8	8.3	13.3	3.6
Dividends	(4.9)	(4.9)	(3.9)	(3.9)
Items charged direct to equity	–	–	(0.7)	(0.7)
Movements relating to share-based payments	(0.4)	(0.1)	0.6	–
At end of year	72.6	14.4	64.1	11.1

Merger relief reserve

On 8 June 2004, the Company issued 21,715 ordinary shares of £1 each at a premium amounting to £1.9 million. The shares were issued as part consideration for the acquisition of the whole of the issued share capital of TJ Brent Limited, accounted for using the purchase method of accounting. The premium over the nominal value of the shares issued was previously credited to a merger relief reserve as allowed under section 612 of the Companies Act.

Other reserves

Other reserves in the Group and Company statements of financial position are made up as follows:

<i>Group and Company</i>	<i>For the year ended 31 March 2012</i>			
	<i>Capital redemption reserve</i>	<i>ESOT reserve</i>	<i>2012 Total</i>	<i>2011 Total</i>
		<i>(£m)</i>		
At beginning of year	2.9	(1.5)	1.4	1.4

Capital redemption reserve

The capital redemption reserve arose on the redemption of the May Gurney Integrated Services PLC cumulative convertible redeemable £1 preference shares in September 2004.

ESOT reserve

As at 31 March 2012, the ESOT held 1,434,378 (2011: 1,434,378) ordinary 5 pence shares in the Company.

The maximum number of 5 pence ordinary shares held in the Company by the ESOT during the year was 1,434,378 (2011: 1,434,378).

The ordinary shares in the Company held by the ESOT represent 2.0 per cent. (2011: 2.0 per cent.) of the ordinary share capital of the Company.

On 28 March 2008, May Gurney Group Trustees Limited, acting in its capacity as trustee of the ESOT, transferred 1,783,324 ordinary shares by way of a gift for £ nil consideration to Lloyds TSB Offshore Trust Company Limited acting in its capacity as trustee of the May Gurney Integrated Services PLC Employee Benefit Trust (EBT), an offshore trust. The ordinary shares in the Company held by the EBT represent 2.4 per cent. of the ordinary share capital of the Company. At 31 March 2012, the EBT held 1,305,108 (2011: 1,675,134) ordinary shares.

26 Commitments

	<i>For the year ended 31 March</i>	
	<i>2012 Group</i>	<i>2011 Group</i>
	<i>(£m)</i>	
(i) Operating lease commitments		
Total commitments due under operating leases:		
Land and buildings		
Within one year	2.5	2.5
Between two and five years	6.3	4.5
More than five years	1.4	1.3
	<u>10.2</u>	<u>8.3</u>
Other		
Within one year	5.4	6.2
Between two and five years	6.3	9.0
More than five years	—	—
	<u>11.7</u>	<u>15.2</u>
(ii) Property, plant and equipment		
Future capital expenditure authorised by the May Gurney Directors but not provided for in these financial statements is as follows:		
Contracts placed	<u>20.6</u>	<u>2.3</u>

27 Business combinations

On 9 November 2011, the Group acquired 100 per cent. of the issued share capital of Senturion Group Limited, trading as TransLinc, a market-leading provider of specialist Fleet & Passenger services to UK local authorities. This transaction has been accounted for by the acquisition method of accounting.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	<i>Acquiree's carrying amount before combination</i>	<i>Provisional fair value adjustments (£m)</i>	<i>Fair value adjustments</i>
Net assets acquired:			
Property, plant and equipment	48.1	(0.5)	47.6
Intangible assets	–	11.1	11.1
Inventories	0.1	–	0.1
Trade receivables	4.9	–	4.9
Cash and cash equivalents	4.5	–	4.5
Trade payables	(13.9)	(0.6)	(14.5)
Taxation payables	(0.6)	–	(0.6)
Debt	(17.2)	–	(17.2)
Finance leases	(28.3)	–	(28.3)
Deferred tax	(1.1)	(2.5)	(3.6)
	<u>(3.5)</u>	<u>7.5</u>	<u>4.0</u>
Goodwill			18.2
Total consideration			22.2
Purchase consideration			<u>22.2</u>
Cash paid			<u>22.2</u>
Net cash outflow arising on acquisition:			
Cash consideration paid			(22.2)
Bank balance acquired			4.5
Acquisition and integration costs			1.2
Bank loans and loan notes repaid			<u>(17.2)</u>
			<u>(36.1)</u>

Provisional fair value adjustments have been made to Property, plant and equipment and Trade payables in order to align the acquiree's accounting policies with those of the Group.

The intangible asset recognised on acquisition relates to the fair value of the order book and customer relationships acquired. Further details are disclosed in Note 13.

The acquisition and integration costs of £1.2 million above have been paid during the year, with a further £0.8 million of costs included in Accruals and deferred income.

The goodwill arising on the acquisition of Senturion Group Limited is attributable to the anticipated profitability of the Group's services in the new markets.

Senturion Group Limited contributed £13.6 million revenue and £1.7 million profit to the Group's profit before tax for the period between the date of acquisition and the financial reporting date.

If the acquisition had been completed on 1 April 2011, total Group revenue for the year would have been £729.4 million, and profit for the period would have been £16.3 million.

28 Employee benefits

Defined contribution pension schemes

The Group operates eight defined contribution pension schemes (2011: eight) and contributions during the year amounted to £6.9 million (2011: £4.0 million). The schemes are the May Gurney Defined Contribution Pension Scheme, TJ Brent Limited Group Personal Pension Plan, T Cartledge Limited Group Personal Pension Plan, AC Chesters & Son Limited Staff Pension Scheme, FDT Executive Pension Plan, FDT Group Personal Pension Plan, FDT Stakeholder Pension and Willows Plant Limited Group Personal Pension Plan.

The Group also makes contributions to local government defined benefit pension schemes in respect of certain employees who have transferred to the Group under TUPE transfer arrangements. The Group is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and consequently the pension costs for these schemes are treated as if they were defined contribution schemes.

Defined benefit pension scheme

The Group operates two defined benefit pension schemes, the May Gurney Defined Benefit Pension Scheme (the “May Gurney Scheme”) and the TransLinc Pensions Scheme (the “TransLinc Scheme”). The assets of the schemes are held separately from those of the Group and are invested in managed funds.

The most recent full triennial valuation of the May Gurney Scheme was carried out at 31 March 2011. The ongoing valuation assumed, in assessing pension costs, that the return on the May Gurney Scheme’s pre-retirement investments would exceed by 2.5 per cent. the rate at which wages and salaries would increase. Future pensions that are due to increase by the maximum of inflation and 5 per cent. each year were assumed to increase at the rate of 3.2 per cent. per annum. The employer’s contribution rate as recommended by the actuary was 11.8 per cent. of Pensionable Salary per annum in respect of future accrual of benefits, 1.0 per cent. of Pensionable Salary per annum in respect of death in service benefits, plus May Gurney Scheme expenses (including levies). The May Gurney Scheme’s assets were less than the May Gurney Scheme’s technical provisions at the valuation date, and therefore a recovery plan was agreed which was expected to remove the shortfall by 31 March 2018, if assumptions were borne out in practice. The average contribution rate by the employees is 6.6 per cent.

The most recent full triennial valuation of the TransLinc Scheme was carried out at 28 February 2011. The ongoing valuation assumed, in assessing pension costs, that the return on the Scheme’s pre-retirement investments would exceed by 1.4 per cent. the rate of future expected Retail Prices Index (“RPI”) inflation. Future pensions that are due to increase by the maximum of inflation and 5 per cent. each year were assumed to increase at the rate of 3.45 per cent. per annum. The TransLinc Scheme’s assets were greater than the technical provisions at the valuation date, and therefore a recovery plan was not required, but annual Company contributions of £145,000 were agreed.

The pension cost relating to the schemes is assessed in accordance with the advice of a qualified actuary on the basis of valuations at each reporting date using the projected unit costing method. The pension charge for the year was £1.0 million (2011: £1.1 million).

The schemes are both closed to new members. The Group expects to pay contributions of £1.1 million in the year ended 31 March 2013, plus scheme expenses and levies as they fall due.

The Company has opted to recognise all actuarial gains and losses immediately as Other Comprehensive Income.

A full actuarial valuation of the May Gurney Scheme was carried out as at 31 March 2011 and the TransLinc Scheme as at 28 February 2011, and these have been updated to 31 March 2012 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	2012	2011
	<i>per cent.</i>	
Discount rate	4.66	5.55
Inflation assumption (RPI)	3.00	3.40
Inflation assumption (CPI)	2.00	2.65
Rate of increase in salaries	3.75	4.15
Rate of increase in pensions in payment – pre-1997	Nil	Nil
– post-1997	2.90	3.20
– post-2006	2.00	2.10
– TransLinc	2.90	N/A

The mortality assumptions used as at 31 March 2012 are based on standard tables produced by the actuarial profession, adjusted for scheme experience.

	2012	2011
Death in service/deferment	AXC00	PXCA00
Death after retirement	S1PXA qx 100%(f). CMI_2010_(0.5%) projections from 2004	
Life expectancy at 65		
Male currently 65	21	21
Male currently 45	22	22
Female currently 65	23	23
Female currently 45	24	24

The schemes' net pension liabilities and expected rates of return on their investments as at 31 March 2012 and as at 31 March 2011 are as follows:

The assets in the schemes and the expected rates of return were:

	<i>Long-term expected rate of return (pa)% per cent.</i>	<i>2012 Scheme fair value</i>	<i>2012 TransLinc Scheme fair value (£m)</i>	<i>2012 consolidated fair value</i>	<i>Long-term expected rate of return (pa) per cent.</i>	<i>2011 fair value (£m)</i>
Equities	7.25	17.4	N/A	17.4	7.25	16.9
Bonds – Corporate	4.66	14.4	N/A	14.4	5.55	12.9
Bonds – Government	3.29	20.9	N/A	20.9	4.35	17.4
Cash and other	0.50	0.4	0.1	0.5	0.50	0.4
Property	6.00	3.8	N/A	3.8	6.00	3.6
Annuities	4.66	1.0	N/A	1.0	5.55	0.7
Investment fund	6.29	N/A	7.1	7.1	N/A	–
Matching fund	3.29	N/A	4.9	4.9	N/A	–
Total assets before adjustment for asset ceiling		57.9	12.1	70.0		51.9
Adjustment in respect of asset ceiling limitations		–	(2.9)	(2.9)		–
Total assets after adjustment for asset ceiling limitations		57.9	9.2	67.1		51.9
Present value of funded retirement benefit obligation		(58.3)	(9.2)	(67.5)		(52.3)
Deficit in the scheme		(0.4)	–	(0.4)		(0.4)
Less: related deferred tax liability		0.1	–	0.1		0.1
Net pension liability		(0.3)	–	(0.3)		(0.3)
Actual return on plan assets over the period		6.8	0.6	7.4		3.1

The expected rate of return on the schemes' assets was determined as the weighted average of the expected returns on the assets held by the schemes on 31 March 2012. The rates of return for each class were determined as follows:

- equities and property: the rate adopted is consistent with the median assumption used in the actuary's asset modelling work as at 31 March 2007;
- bonds: the overall rate has been set to reflect the yields available on the gilts and Grade AA;
- corporate bond holdings held at 31 March 2012;
- matching fund: the rate is set to reflect the yield on Government bonds;
- investment fund: the rate is set to reflect the yield on the matching fund, plus 3.0 per cent. per annum.

Reconciliation of opening and closing balances of the fair value of scheme assets:

<i>Change in the fair value of scheme assets</i>	2012	2011
	(£m)	
Fair value at the beginning of the year	51.9	49.0
Expected return on scheme assets	3.2	2.8
Contributions by employers	0.9	0.9
Contributions by members	0.4	0.5
Benefits paid	(2.2)	(1.6)
Actuarial gain	4.2	0.3
Business combinations	9.2	–
Adjustment in respect of asset ceiling limitations	(0.5)	–
Fair value of plan assets at the end of the year	<u>67.1</u>	<u>51.9</u>

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

<i>Change in the fair value of the defined benefit obligation</i>	2012	2011
	(£m)	
Present value of the obligation at the beginning of the year	(52.3)	(50.1)
Company's service cost	(1.0)	(1.1)
Interest cost	(3.1)	(2.8)
Contributions by members	(0.4)	(0.5)
Benefits paid	2.2	1.6
Actuarial (loss)/gain	(3.7)	0.6
Business combinations	(9.2)	–
Present value of the obligation at the beginning of end of the year	<u>(67.5)</u>	<u>(52.3)</u>

The amount charged to earnings before interest and tax, and included within cost of sales and administration costs, is:

	2012	2011
	(£m)	
Current service cost, less employee contributions	<u>(1.0)</u>	<u>(1.1)</u>
Total charge	<u>(1.0)</u>	<u>(1.1)</u>

Other finance costs are:

	2012	2011
	(£m)	
Expected return on pension scheme assets	3.2	2.8
Interest on pension scheme liabilities	<u>(3.1)</u>	<u>(2.8)</u>
Net income	<u>(0.1)</u>	<u>–</u>

Actuarial gains and (losses) to be shown in Other Comprehensive Income:

	2012	2011
	(£m)	
Actual return less expected return on pension scheme assets	4.2	0.3
Changes in the assumptions underlying the present value of the scheme liabilities	<u>(3.7)</u>	<u>0.6</u>
Actuarial gain recognised in comprehensive income	<u>0.5</u>	<u>0.9</u>

The cumulative actuarial losses recognised in the statement of comprehensive income were a loss of £4.2 million (2011: £4.7 million).

<i>Total gains to be shown in Other Comprehensive Income:</i>	2012	2011
	(£m)	
Actuarial gains	0.5	0.9
Adjustment in respect of asset ceiling limitations	(0.5)	–
	<u>–</u>	<u>0.9</u>
Deficit in scheme at beginning of year	(0.4)	(1.1)
Movement in year:		
Current service cost	(1.0)	(1.1)
Contributions by employers	0.9	0.9
Other finance expense	0.1	–
Net actuarial gains	0.5	0.9
Adjustment in respect of asset ceiling limitations	(0.5)	–
Deficit in scheme at end of year	<u>(0.4)</u>	<u>(0.4)</u>

History of experience gains and (losses) are:

	2012	2011	2010	2009	2008
	(£m)				
Fair value of scheme assets	67.1	51.9	49.0	40.4	43.4
Present value of the defined benefit obligation after asset ceiling adjustment	(67.5)	(52.3)	(50.1)	(40.3)	(42.6)
Net (deficit)/surplus	<u>(0.4)</u>	<u>(0.4)</u>	<u>(1.1)</u>	<u>0.1</u>	<u>0.8</u>
Difference between expected and actual return on scheme assets					
Amount (£m)	4.2	0.3	7.6	(7.1)	(1.9)
Percentage of scheme assets	6.3%	0.6%	15.5%	(17.6)%	(4.4)%
Experience (losses)/gains arising on liabilities					
Amount (£m)	–	–	–	(1.2)	1.8
Percentage of scheme liabilities	0%	0%	0%	(3.0)%	4.2%
Total actuarial gains/(losses) recognised in comprehensive income					
Amount (£m)	–	0.9	(1.3)	(1.0)	–
Percentage of scheme assets	0%	1.7%	(2.7)%	(2.5)%	0%

29 Contingent liabilities

- (a) The Company has given an unlimited guarantee, secured by fixed and floating charges over the Company's assets in respect of the facilities from Bank of Scotland, of all Group companies. At 31 March 2012, the net indebtedness of all other Group companies amounted to £20.0 million (2011: £nil).
- (b) The Company has given joint and several guarantees securing indemnities given by other Group companies in respect of performance bonds which have been put in place to provide security for clients. These performance bonds are not exercisable on demand. At 31 March 2012, indemnities outstanding for other Group companies amounted to £11.1 million (2011: £8.8 million).

30 Group undertakings

The Group undertakings, all of which are included within the Group financial statements, at 31 March 2012:

<i>Activity</i>	<i>Percentage of equity owned</i>
Subsidiary undertakings	
May Gurney Group Limited	– Dormant intermediate holding company 100
May Gurney Limited	– Infrastructure support services +100
May Gurney Estates Limited	– Property holding and development +100
May Gurney Recycling CIC	– Collection and sale of recyclable materials *100
North Lincolnshire Learning Partnership (PSP) Limited	– Dormant intermediate holding company *52
Engage North Lincolnshire Limited	– Facility services for the education sector *****80
Turriff Group Limited	– Provision of contracting services to utility markets *100
Turriff Contractors Limited	– Provision of contracting services to utility markets *****100
Underground Moling Services Limited	– Provision of contracting services to utility markets *****90
Turriff Smart Services Limited	– Provision of contracting services to utility markets *****100
TOR2 Limited	– Waste, recycling collections and highways maintenance *80
Lambeth Learning Partnership (PSP) Limited	– Dormant intermediate holding company *65
Engage Lambeth Limited	– Facility services for the education sector *****80
Senturion Group Limited	– Dormant *100
Senturion (MidCo) Limited	– Dormant ◆100
Senturion (BidCo) Limited	– Dormant ◆◆100
Senturion Trustees Limited	– Dormant ◆100
May Gurney Fleet & Passenger Services Limited	– Provider of specialist Fleet & Passenger services ◆◆◆100
MGWSP Essex Limited	– Dormant *100
ECT Engineering Limited	– Dormant *100
May Gurney Building Limited	– Dormant *100
AC Chesters & Son Limited	– Dormant *100
FDT (Holdings) Limited	– Dormant *100
FDT Associates Limited	– Dormant **100
FDT Contracts Limited	– Dormant **100
Norfolk Community Recycling Services Limited	– Dormant *100
T Cartledge Limited	– Dormant *100
TJ Brent Limited	– Dormant *100
Ayton Asphalte Company Limited	– Dormant +100
May Gurney (Regional) Limited	– Dormant +100
May Gurney (Technical Services) Limited	– Dormant +100
May Gurney Group Trustees Limited	– Dormant +100
Michco 210 Limited	– Dormant *100
Engineered Products Limited	– Dormant *100
Associated undertakings	
Resource Environmental Limited	– Non trading ***50
Jointly controlled entities	
DAWN Environmental Limited	– Non trading ***50
Monmouthshire Community Recycling Limited	– Non trading ***50
Jointly controlled operations	
May Gurney WSP JV	– Highways maintenance *50
Lafarge Contracting/May Gurney JV	– Civil Engineering *50

Note:

- + held by May Gurney Group Limited
- * held by May Gurney Limited
- ** held by FDT (Holdings) Limited
- *** held by May Gurney Recycling CIC
- **** held by North Lincolnshire Learning Partnership (PSP) Limited
- ***** held by Turriff Group Limited
- ***** held by Lambeth Learning Partnership (PSP) Limited
- ◆ held by Senturion Group Limited
- ◆◆ held by Senturion (MidCo) Limited
- ◆◆◆ held by Senturion (BidCo) Limited

During the year, TransLinc Limited changed its name to May Gurney Fleet & Passenger Services Limited.

The shareholdings in subsidiaries, associates and jointly controlled entities all relate to ordinary capital and are equivalent to the percentages of voting rights held by the Group.

The percentages quoted in respect of the jointly controlled operations are the Group's interests under the joint operation contracts. The joint operations' principal places of business are:

MGWSP, Riverside House, Northampton, Northamptonshire;

Lafarge Contracting/May Gurney, Bradgate House, Groby, Leicester.

31 Reconciliation of operating profit before amortisation and non-recurring costs to cash generated from operations

	<i>2012</i> <i>Group</i>	<i>2012</i> <i>Company</i>	<i>2011</i> <i>Group</i> <i>(£m)</i>	<i>2011</i> <i>Company</i>
Operating profit/(loss) before amortisation and non-recurring costs	30.1	(2.3)	25.1	(2.2)
Depreciation	16.4	–	8.8	–
Profit on sale of property, plant and equipment	(0.6)	–	(0.1)	–
Debit in respect of retirement and benefit costs	0.1	0.1	0.2	–
Charge in respect of share-based payments in the period	0.1	–	0.3	–
Increase in inventories	(0.1)	–	(1.6)	–
Decrease/(increase) in trade and other receivables	3.1	1.0	(20.1)	2.3
(Decrease)/increase in trade and other payables	(6.7)	5.1	16.0	(3.9)
Cash received by/(used in) operations	<u>42.4</u>	<u>3.9</u>	<u>28.6</u>	<u>(3.6)</u>

Cash and cash equivalents (which are presented as a single class of assets on the face of the statement of financial position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

32 Related party transactions

Key management remuneration

	<i>For the year ended 31 March</i>	
	<i>2012 Group</i>	<i>2011 Group</i>
	<i>(£m)</i>	
Short-term employee benefits	2.6	2.1
Post-employment benefits	0.1	0.1
Share-based payments	0.4	0.2
	<hr/>	<hr/>
	3.1	2.4
	<hr/>	<hr/>

Transactions with subsidiary undertakings

Included within trade and other receivables are amounts owed by 100 per cent. subsidiary undertakings of the Company of £11.4 million (2011: £2.8 million).

During the year ended 31 March 2012, there were transactions totalling £0.9 million between the Parent Company and its subsidiary undertakings (2011: £0.9 million). All of these transactions, and the year end reporting amounts arising from these transactions were conducted on an arm's length basis and on normal commercial terms. In addition, the Company paid £4.4 million (2011: £9.8 million) net to its subsidiary undertakings from investments in short-term bank deposits.

Transactions with jointly controlled entities and jointly controlled operations

During the year, the Group made sales to and purchases from its jointly controlled entities and arrangements. These were normal trading transactions, conducted on an arm's length basis and on normal commercial terms. The amounts involved individually and in aggregate are not considered to be material either financially or generally to users of these financial statements.

Other related party transactions

Ishbel Macpherson, non-executive director of May Gurney, was also a non-executive director of Speedy Hire plc. The Group makes purchases from Speedy Hire companies on an arm's length basis in the normal course of business. During the year, the value of purchases from Speedy Hire companies was £1.8 million (2011: £1.8 million) and a balance of £0.2 million (2011: £0.1 million) was owed at the end of the year.

PART D:
MAY GURNEY UNAUDITED CONSOLIDATED HISTORICAL
FINANCIAL INFORMATION FOR THE HALF YEAR ENDED
30 SEPTEMBER 2012

Condensed consolidated income statement of the May Gurney Group for the half year ended 30 September 2012

For the six months ended 30 September 2012

	<i>Six months to 30 September 2012</i>	<i>Six months to 30 September 2012</i>	<i>Six months to 30 September 2012</i>	<i>Six months to 30 September 2011</i>	<i>12 months to 31 March 2012</i>	
<i>Note</i>	<i>Continuing operations</i>	<i>Discontinued operations</i>	<i>(unaudited)</i>	<i>(unaudited)</i>		
	<i>(£m)</i>					
Group revenue	1	338.9	14.6	353.5	351.0	695.3
Cost of sales		(313.0)	(23.4)	(336.4)	(314.8)	(625.2)
Gross profit/(loss)		25.9	(8.8)	17.1	36.2	70.1
Administrative expenses		(13.3)	(1.2)	(14.5)	(21.2)	(40.0)
Group operating profit/(loss) before amortisation and other non-recurring costs		12.6	(10.0)	2.6	15.0	30.1
Other expenses:						
– Intangible assets amortisation and impairment		(5.7)	–	(5.7)	(1.4)	(4.2)
– Other non-recurring costs		–	–	–	–	(4.9)
Operating profit/(loss)		6.9	(10.0)	(3.1)	13.6	21.0
Finance income	2	0.1	–	0.1	0.2	0.3
Finance costs	2	(1.6)	–	(1.6)	(0.7)	(2.0)
Profit/(loss) before taxation		5.4	(10.0)	(4.6)	13.1	19.3
Taxation	3	(1.4)	2.4	1.0	(3.5)	(5.5)
Profit/(loss) for the period/year attributable to equity holders of the parent	1	4.0	(7.6)	(3.6)	9.6 ⁽¹⁾	13.8 ⁽²⁾
Earnings/(loss) per share (in pence)	5					
Basic earnings/(loss) per share		5.92p	(11.25p)	(5.33p)	14.30p	20.52p
Diluted earnings/(loss) per share		5.80p	(11.25p)	(5.33p)	13.81p	19.91p
Underlying earnings/(loss) per share		11.82p	(10.82p)	1.00p	15.09p	29.47p

Notes:

(1) Profit of £0.2 million arising from discontinued operations for six months to 30 September 2011.

(2) Loss of £1.5 million arising from discontinued operations for 12 months to 31 March 2012.

Condensed consolidated statement of comprehensive income**For the six months ended 30 September 2012**

	<i>Six months to 30 September 2012 (unaudited)</i>	<i>Six months to 30 September 2011 (unaudited) (£m)</i>	<i>12 months to 31 March 2012</i>
(Loss)/profit for the period/year	<u>(3.6)</u>	<u>9.6</u>	<u>13.8</u>
Other comprehensive income for the period/year	<u>–</u>	<u>–</u>	<u>–</u>
Total comprehensive income for the period/year attributable to equity holders of the parent	<u>(3.6)</u>	<u>9.6</u>	<u>13.8</u>

Condensed consolidated statement of changes in equity of the May Gurney Group for the half year ended 30 September 2012

	<i>For the period ended 30 September 2012</i>					
	<i>Share capital</i>	<i>Share premium account</i>	<i>Merger relief reserve</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total equity</i>
	<i>(£m)</i>					
Balance at 31 March and 1 April 2011	3.5	13.2	1.9	1.4	64.1	84.1
Profit for the period	–	–	–	–	9.6	9.6
Total comprehensive income for the period	–	–	–	–	9.6	9.6
Transactions with owners:						
Share-based payments – income statement charge	–	–	–	–	0.4	0.4
Share-based payments – deferred tax relief on future exercise	–	–	–	–	0.4	0.4
Dividends paid	–	–	–	–	(3.0)	(3.0)
Balance at 30 September 2011	3.5	13.2	1.9	1.4	71.5	91.5
Profit for the period	–	–	–	–	4.2	4.2
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	4.2	4.2
Transactions with owners:						
Share-based payments – income statement credit	–	–	–	–	(0.4)	(0.4)
Share-based payments – deferred tax relief on future exercise	–	–	–	–	(0.8)	(0.8)
Dividends paid	–	–	–	–	(1.9)	(1.9)
Balance at 31 March and 1 April 2012	3.5	13.2	1.9	1.4	72.6	92.6
Loss for the period	–	–	–	–	(3.6)	(3.6)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	(3.6)	(3.6)
Transactions with owners:						
Share-based payments – income statement credit	–	–	–	–	(0.3)	(0.3)
Share-based payments – deferred tax relief on future exercise	–	–	–	–	(0.9)	(0.9)
Dividends paid	–	–	–	–	(3.8)	(3.8)
Balance at 30 September 2012	3.5	13.2	1.9	1.4	64.0	84.0

Condensed consolidated statement of financial position of the May Gurney Group for the half year ended 30 September 2012

	<i>Note</i>	<i>As at 30 September</i> 2012	<i>2012</i> (£m)	<i>As at</i> 31 March 2011
Non-current assets				
Property, plant and equipment	7	112.2	40.2	92.4
Goodwill		60.3	42.1	60.3
Other intangible assets	8	13.7	10.2	18.8
Deferred tax asset		–	1.7	–
		<u>186.2</u>	<u>94.2</u>	<u>171.5</u>
Current assets				
Inventories		4.8	4.4	4.5
Trade and other receivables		119.7	134.1	112.2
Cash and cash equivalents		20.0	36.6	31.0
		<u>144.5</u>	<u>175.1</u>	<u>147.7</u>
Assets included in discontinued operation		2.2	–	–
Total assets		<u>332.9</u>	<u>269.3</u>	<u>319.2</u>
Current liabilities				
Trade and other payables		(135.7)	(152.4)	(141.2)
Current tax liabilities		(0.5)	(3.6)	(3.1)
Borrowings		(23.0)	–	(20.0)
Obligations under finance leases		(19.2)	(6.4)	(16.9)
		<u>(178.4)</u>	<u>(162.4)</u>	<u>(181.2)</u>
Liabilities included in discontinued operation		(14.0)	–	–
Non-current liabilities				
Retirement benefit obligations	9	(0.4)	(0.4)	(0.4)
Obligations under finance leases		(54.7)	(15.0)	(43.3)
Deferred tax liability		(1.4)	–	(1.7)
		<u>(56.5)</u>	<u>(15.4)</u>	<u>(45.4)</u>
Total liabilities		<u>(248.9)</u>	<u>(177.8)</u>	<u>(226.6)</u>
Net assets		<u>84.0</u>	<u>91.5</u>	<u>92.6</u>
Equity				
Share capital		3.5	3.5	3.5
Share premium account		13.2	13.2	13.2
Merger relief reserve		1.9	1.9	1.9
Other reserves		1.4	1.4	1.4
Retained earnings		64.0	71.5	72.6
Total equity		<u>84.0</u>	<u>91.5</u>	<u>92.6</u>

These financial statements were approved by the Board on 3 December 2012.

Willie MacDiarmid
Director

Condensed consolidated statement of cash flows of the May Gurney Group for the half year ended 30 September 2012

	<i>Six months to 30 September 2012 (unaudited)</i>	<i>Six months to 30 September 2011 (unaudited) (£m)</i>	<i>12 months to 31 March 2012</i>
Cash flows from operating activities			
Group operating profit before amortisation and non-recurring costs	2.6	15.0	30.1
Non-cash items	11.1	6.0	16.0
Working capital movement	(8.3)	(3.3)	(3.7)
Discontinued operations	10.0	–	–
Cash generated from continuing operations	15.4	17.7	42.4
Cash used in discontinued operations	(2.0)	–	–
Cash generated from operations	13.4	17.7	42.4
Non-recurring business closure costs paid	(1.1)	(0.3)	(3.5)
Corporation tax paid	(3.1)	(2.6)	(6.4)
Finance income	0.1	0.2	0.3
Finance costs	(1.6)	(0.7)	(2.0)
Net cash from operating activities	7.7	14.3	30.8
Cash flows from investing activities			
Purchase of property, plant and equipment	(34.3)	(6.4)	(22.8)
Proceeds from sale of property, plant and equipment	3.2	0.1	1.4
Payments to acquire intangible assets	(0.6)	(0.3)	(0.5)
Acquisition of subsidiaries and overdraft acquired	–	(0.4)	(18.6)
Net cash used in investing activities	(31.7)	(7.0)	(40.5)
Cash flows from financing activities			
Ordinary dividends paid	(3.8)	(3.0)	(4.9)
New finance leases	23.8	–	17.6
Payment of finance lease obligations	(10.0)	(3.9)	(11.0)
Loan received	23.0	–	20.0
Loans repaid	(20.0)	–	(17.2)
Net cash received from/(used in) financing activities	13.0	(6.9)	4.5
(Decrease)/increase in cash and cash equivalents	(11.0)	0.4	(5.2)
Opening cash and cash equivalents	31.0	36.2	36.2
Closing cash and cash equivalents	20.0	36.6	31.0
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash and cash equivalents	(11.0)	0.4	(5.2)
(Increase)/decrease in finance leases	(13.8)	3.9	(6.6)
Acquired debt	–	–	(28.3)
(Decrease)/increase in net funds in the period/year	(24.8)	4.3	(40.1)
Opening net (debt)/funds	(29.2)	10.9	10.9
Closing net (debt)/funds	(54.0)	15.2	(29.2)

Net funds represents cash and cash equivalents less obligations under finance leases, borrowings and loans.

Statement of accounting policies

Nature of operations

The principal activities of the Group during the period were infrastructure support services. The May Gurney Group is incorporated and domiciled in the United Kingdom and is listed on the Alternative Investment Market. The registered office is at the May Gurney Group office in Trowse, Norwich, UK. The presentation currency used is GB Pound Sterling and figures are quoted in millions, rounded to the nearest £100,000.

Basis of preparation

The information for the year ended 31 March 2012 does not constitute statutory accounts as defined in Section 434 of the Companies Act. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain any statements under Section 498(2) or (3) of the Companies Act.

The half-yearly financial statements are the unaudited, half-yearly, condensed consolidated financial statements. This half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

At 30 September 2012, the May Gurney Group had finance lease liabilities of £74 million, a bank loan of £23 million and cash in hand of £20 million. The May Gurney Group has a total banking facility of £48 million. The business is forecast to remain cash generative. The May Gurney Directors have a reasonable expectation that the May Gurney Group has adequate resources to continue operating for the foreseeable future. On these grounds, the board has continued to adopt the going concern basis for the preparation of the half-yearly condensed consolidated financial statements.

The financial statements have been prepared under the recognition and measurement principles of IFRS as adopted by the EU that are expected to be adopted and effective at 31 March 2013, using accounting policies and methods of computation, as set out in the 31 March 2012 May Gurney Annual Report and Accounts, except as set out below, and applied consistently.

No onerous contract provisions have been made in respect of the recently mobilised environmental services contracts.

Adoption of new and revised International Financial Reporting Standards

In the current period, the May Gurney Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 April 2012.

Changes in accounting policy

The following standards and interpretations came into effect and were adopted in the current period but had no effect on the condensed consolidated financial statements:

- IFRS 1 (amended) Severe hyperinflation and Removal of fixed dates for first-time adopters;
- IFRS 7 (amended) Financial instruments: disclosures; and
- IAS 12 (amended) Income taxes – deferred tax recovery of underlying assets.

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

- IFRS 1 (amended) Government loan with a below-market rate of interest and Repeat application, Borrowing costs;
- IFRS 7 (amended) Offsetting of assets and liabilities and Deferral of mandatory effective date of IFRS 9;

- IFRS 9 Financial Instruments – Classification and measurement and Deferral of mandatory effective date of IFRS 9;
- IFRS 10 Consolidated financial statements;
- IFRS 11 Joint arrangements;
- IFRS 12 Disclosure of interests in other entities;
- IFRS 13 Fair value measurement;
- IAS 1 Presentation of financial statements – items in other comprehensive income and Comparative information;
- IAS 16 Property, Plant and Equipment – Amendments re servicing equipment;
- IAS 19 (amended) Employee benefits;
- IAS 27 Separate financial statements;
- IAS 28 Investments in associates and joint ventures;
- IAS 32 Financial Instruments: Presentation – Offsetting of assets and liabilities and Tax effect of equity distributions; and
- IAS 34 Interim Financial Reporting – Amendments re interim reporting of segment assets.

The May Gurney Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the May Gurney Group.

Notes to the accounts

1 Segmental analysis

For management purposes, the Group is currently organised into three segments – Public Sector Services (Highways Services, Environmental Services, Facility Services and Fleet & Passenger Services), Regulated Sector Services (Utility Services, Rail Services and Waterways Services) and Property. The three segments noted are those that are regularly reviewed by the Group's Chief Operating Decision Maker (CODM), Willie MacDiarmid (Interim Chief Executive). Revenue is mostly derived from contract work.

The identification of these reportable segments has come about due to the Group's aim of aligning services more closely with the needs of its long-term clients and the nature of the work the Group delivers for them, namely delivering essential front-line maintenance and enhancement services.

	<i>For the six months ended 30 September 2012 (unaudited)</i>					
	<i>Public Sector Services</i>	<i>Regulated Sector Services</i>	<i>Property</i>	<i>Continuing operations</i>	<i>Discontinued operations</i>	<i>Group</i>
				<i>(£m)</i>		
Revenue						
Total revenue	197.7	142.6	–	340.3	14.6	354.9
Less: between segments	(0.2)	(1.2)	–	(1.4)	–	(1.4)
External revenue	<u>197.5</u>	<u>141.4</u>	<u>–</u>	<u>338.9</u>	<u>14.6</u>	<u>353.5</u>
Sales between segments are charged at prevailing market prices						
Result per management information reviewed by the CODM						
Group operating profit before amortisation	8.4	4.2	–	12.6	(10.0)	2.6
Intangible assets amortisation	(1.9)	(3.8)	–	(5.7)	–	(5.7)
Non-recurring costs	–	–	–	–	–	–
Finance income				0.1	–	0.1
Finance costs				(1.6)	–	(1.6)
Profit before taxation				<u>5.4</u>	<u>(10.0)</u>	<u>(4.6)</u>
Taxation				<u>(1.4)</u>	<u>2.4</u>	<u>1.0</u>
Profit for the period per management information				<u>4.0</u>	<u>(7.6)</u>	<u>(3.6)</u>
Total assets						
Segments	211.1	94.9	12.7	318.7	2.2	320.9
Not allocated to segments						12.0
						<u>332.9</u>
Total liabilities						
Segments	(156.0)	(63.1)	(0.4)	(219.5)	(14.0)	(233.5)
Not allocated to segments						(15.4)
						<u>(248.9)</u>
Other information						
Capital expenditure	34.1	0.2	–	34.3	–	34.3
Depreciation	<u>8.4</u>	<u>3.2</u>	<u>–</u>	<u>11.6</u>	<u>0.1</u>	<u>11.7</u>

One customer in the Public Sector Services segment accounted for over 10 per cent. of total revenue. As the Group's activities are almost entirely domestic, no geographical segmental analysis is required.

	<i>For the six months ended 30 September 2011 (unaudited)</i>			
	<i>Public Sector Services</i>	<i>Regulated Sector Services</i>	<i>Property</i>	<i>Group</i>
	<i>(£m)</i>			
Revenue				
Total revenue	216.8	136.0	–	352.8
Less: between segments	(0.4)	(1.4)	–	(1.8)
External revenue	<u>216.4</u>	<u>134.6</u>	<u>–</u>	<u>351.0</u>
Sales between segments are charged at prevailing market prices				
Result per management information reviewed by the CODM				
Group operating profit before amortisation	10.0	5.0	–	15.0
Intangible assets amortisation	(0.6)	(0.8)	–	(1.4)
Non-recurring costs	–	–	–	–
Finance income				0.2
Finance costs				(0.7)
Profit before taxation				<u>13.1</u>
Taxation				(3.5)
Profit for the period per management information				<u>9.6⁽¹⁾</u>
Total assets				
Segments	133.7	109.3	11.9	254.9
Not allocated to segments				14.4
				<u>269.3</u>
Total liabilities				
Segments	(101.8)	(70.7)	(0.7)	(173.2)
Not allocated to segments				(4.6)
				<u>(177.8)</u>
Other information				
Capital expenditure	4.4	2.0	–	6.4
Depreciation	<u>3.8</u>	<u>1.6</u>	<u>–</u>	<u>5.4</u>

Note:

(1) Profit of £0.2 million arising from discontinued operations for six months to 30 September 2011.

No customers accounted for over 10 per cent. of total revenue.

For the year ended 31 March 2012

	<i>Public Sector Services</i>	<i>Regulated Sector Services</i>	<i>Property</i>	<i>Group</i>
	<i>(£m)</i>			
Revenue				
Total revenue	418.9	279.2	–	698.1
Less: between segments	(0.7)	(2.1)	–	(2.8)
External revenue	<u>418.2</u>	<u>277.1</u>	<u>–</u>	<u>695.3</u>
Sales between segments are charged at prevailing market prices				
Result per management information reviewed by the CODM				
Group operating profit before amortisation	17.8	12.3	–	30.1
Intangible assets amortisation	(2.3)	(1.9)	–	(4.2)
Non-recurring costs	(3.7)	(1.2)	–	(4.9)
Finance income				0.3
Finance costs				<u>(2.0)</u>
Profit before taxation				<u>19.3</u>
Taxation				<u>(5.7)</u>
Profit for the period per management information				<u>13.6</u>
Taxation adjustment				<u>0.2</u>
Profit for the year per statutory accounts				<u>13.8⁽²⁾</u>
Total assets				
Segments	196.0	107.0	12.0	315.0
Not allocated to segments				<u>4.2</u>
				<u>319.2</u>
Total liabilities				
Segments	(146.9)	(73.0)	(0.5)	(220.4)
Not allocated to segments				<u>(6.2)</u>
				<u>(226.6)</u>
Other information				
Capital expenditure	68.0	2.4	–	70.4
Depreciation	<u>12.3</u>	<u>4.0</u>	<u>0.1</u>	<u>16.4</u>

Note:

(2) Loss of £1.5 million arising from discontinued operations for 12 months to 31 March 2012.

No customers accounted for over 10 per cent. of total revenue.

2 Finance income and costs

For the six months ended 30 September 2012

	<i>Six months to 30 September 2012 (unaudited)</i>	<i>Six months to 30 September 2011 (unaudited) (£m)</i>	<i>12 months to 31 March 2012</i>
Finance income			
Income receivable from short-term bank deposits	0.1	0.2	0.2
Finance income in relation to defined benefit pension scheme	–	–	0.1
	<u>0.1</u>	<u>0.2</u>	<u>0.3</u>
Finance costs			
Finance charges payable under finance leases	(1.3)	(0.5)	(1.5)
Finance cost in relation to the change in value of financial assets	–	–	(0.1)
Intangible assets amortisation	–	–	–
Other interest	(0.3)	(0.2)	(0.4)
	<u>(1.6)</u>	<u>(0.7)</u>	<u>(2.0)</u>

3 Taxation

For the six months ended 30 September 2012

	<i>Six months to 30 September 2012 (unaudited)</i>	<i>Six months to 30 September 2011 (unaudited) (£m)</i>	<i>12 months to 31 March 2012</i>
Current tax			
Corporation tax on profits for the period/year	0.3	4.0	6.1
Over provision in respect of prior periods	–	–	0.6
Total current tax	<u>0.3</u>	<u>4.0</u>	<u>6.7</u>
Deferred tax			
Origination and reversal of temporary differences	0.1	(0.1)	0.5
Tax effect of intangible assets amortisation	(1.4)	(0.4)	(1.0)
Over provision in respect of prior years	–	–	(0.7)
Total deferred tax	<u>(1.3)</u>	<u>(0.5)</u>	<u>(1.2)</u>
Total tax (credit)/charge for the period/year	<u>(1.0)</u>	<u>3.5</u>	<u>5.5</u>

The taxation charge for the six months ended 30 September 2012 has been calculated at 25.9 per cent. (2011: 27 per cent.) of the Group's continuing operating profit before amortisation.

This represents the estimated effective rate of tax for the half year period.

4 Discontinued operations

The amounts presented in the income statement under discontinued operations relate to the Facility Services business unit, part of the Public Sector Services division. It is the Board's intention to discontinue this activity. At 30 September, discontinuation costs of £2.0 million have been incurred and a provision of £8.0 million has been recognised, representing management's best estimate of the remaining discontinuation costs.

5 Earnings per share

For the six months ended 30 September

	<i>Six months to 30 September 2012 Continuing operations (unaudited)</i>	<i>Six months to 30 September 2012 Discontinued operations (unaudited)</i>	<i>Six months to 30 September 2012 (unaudited) (£m)</i>	<i>Six months to 30 September 2011 (unaudited)</i>	<i>12 months to 31 March 2012</i>
Profit/(loss) for the period/year	4.0	(7.6)	(3.6)	9.6 ⁽¹⁾	13.8 ⁽²⁾
Basic/diluted earnings	4.0	(7.6)	(3.6)	9.6	13.8
Adjustments to basic earnings					
Intangible assets amortisation and impairment	5.7	–	5.7	1.4	4.2
Other non-recurring costs	–	–	–	–	4.9
Tax on non-recurring items	(1.4)	–	(1.4)	(0.4)	(2.2)
Underlying earnings/(loss)	8.3	(7.6)	0.7	10.6	20.7
<i>Number of shares</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>
Weighted average number of ordinary shares for the purposes of basic earnings per share	67,557,055	67,557,055	67,557,055	67,153,843	67,246,350
Effect of dilutive potential ordinary shares	1,367,843	–	–	2,368,725	2,050,704
Weighted average number of ordinary shares for the purposes of diluted earnings per share	68,924,898	67,557,055	67,557,055	69,522,568	69,297,054
Weighted average number of ordinary shares for the purposes of underlying earnings per share	70,236,016	70,236,016	70,236,016	70,236,016	70,236,016
	<i>pence</i>	<i>pence</i>	<i>pence</i>	<i>pence</i>	<i>pence</i>
Underlying earnings/(loss) per share	11.82	(10.82)	1.00	15.09	29.47
Basic earnings/(loss) per share	5.92	(11.25)	(5.33)	14.30	20.52
Diluted earnings/(loss) per share	5.80	(11.25)	(5.33)	13.81	19.91

Notes:

(1) Profit of £0.2 million arising from discontinued operations for six months to 30 September 2011.

(2) Loss of £1.5 million arising from discontinued operations for 12 months to 31 March 2012.

Underlying earnings/(loss) per share, before amortisation, has been disclosed to give a clearer understanding of the Group's underlying trading performance. It has been calculated using the underlying earnings figures above and the weighted average number of ordinary shares above, which includes those shares held by the Group Employee Share Ownership Trust.

Diluted earnings/(loss) per share is the basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the number of options outstanding during the period.

The diluted earnings per share is the same as the basic earnings per share (except for continuing operations), due to the potential ordinary shares becoming anti-dilutive where a loss is shown.

6 Dividends

For the six months ended 30 September 2012

	<i>Six months to 30 September 2012 (unaudited)</i>	<i>Six months to 30 September 2011 (unaudited) (£m)</i>	<i>12 months to 31 March 2012</i>
Amounts recognised as distributions to equity holders in the period			
Final dividend paid for the year ended 31 March 2012 of 5.63 pence per share (2011: 4.52 pence)	3.8	3.0	3.0
Interim dividend paid for the year ended 31 March 2012 of 2.79 pence per share	–	–	1.9
	<u>3.8</u>	<u>3.0</u>	<u>4.9</u>

An interim dividend of 2.79 pence per share has been declared since the financial reporting date and so has not been included as a liability in these financial statements. The dividend was paid on 7 January 2013 to holders of ordinary shares on the register at the close of business on 14 December 2012.

The trustees of the Group Limited Employee Share Ownership Trust and the May Gurney Integrated Services PLC Employee Benefit Trust have both waived their rights to receive any dividends in respect of shares held in the Trusts.

7 Property, plant and equipment

Property, plant and equipment of £34.3 million were purchased in the period, comprising £31.2 million plant and equipment and £3.1 million short leasehold property improvements. A total of £23.8 million of assets were acquired on finance leases. There were disposals with a carrying value of £2.8 million in the period, comprising £0.8 million freehold property and £2.0 million plant and equipment. The depreciation charge for the period of £11.7 million was the only other significant movement on the book value of assets.

Future capital expenditure authorised by the May Gurney Directors but not provided for in these financial statements amounts to £7.3 million (31 March 2012: £20.6 million, 30 September 2011: £5.2 million).

8 Intangible assets

Intangible assets of £0.6 million were recognised in the period, comprising internal software development. The amortisation charge for the period of £5.7 million (September 2011: £1.4 million) was the only other significant movement on the book value of intangible assets. The amortisation charge consists of £1.5 million amortisation on historical acquisitions, £1.3 million amortisation relating to TransLinc and £2.9 million impairment charge relating to the Scottish Utilities business.

9 Employee benefits

The Group operates two defined benefit pension schemes: the May Gurney Defined Benefit Pension Scheme and the TransLinc Pension Scheme. The May Gurney Defined Benefit Pension Scheme was closed to future accrual on 30 September 2012. The assets of the schemes are held separately from those of the Group and are invested in managed funds. Full details of the defined benefit obligation are disclosed in the Group's annual report and accounts.

The balance sheet position as presented at 31 March 2012 has not been remeasured at the interim reporting date as the level of actuarial gains and losses in the period is not considered to be material.

PART VIII

INFORMATION ON THE EXPECTED IMPACT OF THE TRANSACTION ON THE ASSETS AND LIABILITIES OF THE KIER GROUP

SECTION A: Unaudited pro forma financial information on the Enlarged Group

The unaudited pro forma statement of net assets set out below has been prepared to illustrate the effect of the acquisition of the May Gurney Group on the Kier Group's net assets as if it had occurred on 31 December 2012. It has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent the Kier Group's or Enlarged Group's actual financial position or results. The unaudited pro forma statement of net assets has been prepared on the basis set out in the notes below.

Unaudited pro forma statement of net assets of the Enlarged Group as at 31 December 2012

Note	<i>Adjustments</i>			<i>Pro forma as at 31 December 2012</i>
	<i>Kier as at 31 December 2012</i>	<i>May Gurney as at 30 September 2012</i>	<i>Acquisition accounting adjustments</i>	
	(2)	(3)	(4)(5)(6)	
	(£m)			
Non-current assets:				
Property, plant and equipment	104.2	112.2		216.4
Goodwill	13.4	60.3	127.5	201.2
Other intangible assets	13.2	13.7		26.9
Interest in associates and joint ventures	21.3	–		21.3
Other receivables	30.3	–		30.3
Deferred tax asset	29.9	–		29.9
	<u>212.3</u>	<u>186.2</u>	<u>127.5</u>	<u>526.0</u>
Current assets:				
Inventories	414.0	4.8		418.8
Trade and other receivables	359.2	119.7		478.9
Income tax receivables	7.5	–		7.5
Cash and cash equivalents	105.2	20.0	(2.6)	122.6
	<u>885.9</u>	<u>144.5</u>	<u>(2.6)</u>	<u>1,027.8</u>
Assets included in discontinued operations	–	2.2		2.2
Total assets	<u>1,098.2</u>	<u>332.9</u>	<u>124.9</u>	<u>1,556.0</u>
Current liabilities:				
Interest-bearing loans and borrowings	(30.4)	(23.0)		(53.4)
Finance lease obligations	(1.3)	(19.2)		(20.5)
Trade and other payables	(721.2)	(135.7)		(856.9)
Tax liabilities	–	(0.5)		(0.5)
Short-term provisions	(2.5)	–		(2.5)
	<u>(755.4)</u>	<u>(178.4)</u>		<u>(933.8)</u>

	<i>Kier as at 31 December 2012</i>	<i>May Gurney as at 30 September 2012</i>	<i>Adjustments Acquisition accounting adjustments (£m)</i>	<i>Pro forma as at 31 December 2012</i>
<i>Note</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)(5)(6)</i>	
Non-current liabilities:				
Borrowings	(62.7)	–	(50.0)	(112.7)
Obligations under finance leases	(6.9)	(54.7)		(61.6)
Retirement benefit obligations	(63.7)	(0.4)		(64.1)
Trade and other payables	(13.3)	–		(13.3)
Long-term provisions	(53.6)	–		(53.6)
Deferred tax liabilities	–	(1.4)		(1.4)
	<u>(200.2)</u>	<u>(56.5)</u>	<u>(50.0)</u>	<u>(306.7)</u>
Liabilities included in discontinued operations		(14.0)		(14.0)
Total liabilities	<u>(955.6)</u>	<u>(248.9)</u>	<u>(50.0)</u>	<u>(1,254.5)</u>
Net assets	<u>142.6</u>	<u>84.0</u>	<u>74.9</u>	<u>301.5</u>

Notes:

- (1) The pro forma statement of combined assets and liabilities has been prepared in a manner consistent with the accounting policies adopted by the Company for the year ended 30 June 2012.
- (2) Financial information in respect of the Company has been extracted without material adjustment from Kier's 2013 Interim Results. No account has been taken of the performance of Kier since 31 December 2012.
- (3) The financial information in respect of May Gurney has been extracted without material adjustment from the unaudited interim financial statements of May Gurney for the half year ended 30 September 2012, which are set out in Part VII of this document. No account has been taken of the performance of May Gurney since 30 September 2012.
- (4) For the purpose of the pro forma statement of net assets, the difference between the consideration payable, consisting of 14,714,445 New Kier Shares of 1 pence each and £35.1 million in cash paid by Kier to May Gurney Shareholders, and the net assets of May Gurney is shown as goodwill within intangible assets:

	<i>(£m)</i>
Purchase consideration	211.5
Net assets of May Gurney at 30 September 2012	(84.0)
Goodwill	127.5

The calculation of consideration is based on the Closing Price of Kier's ordinary shares of 1,199 pence on 13 May 2013.

- (5) Aggregate fees and expenses of £17.5 million are expected to be incurred in connection with the transaction.
- (6) The adjustment to cash equates to the £50.0 million term loan under the Acquisition Facility Agreement described in paragraph 5.6 of Part XI of this document less £17.5 million of transaction costs (note 5) and £35.1 million of cash consideration (note 4).
- (7) The transaction will be accounted for as an acquisition in accordance with IFRS 3 Business Combinations. The pro forma net assets statement does not give effect to fair value adjustments to either net assets or intangibles arising from the purchase price. The fair value adjustments, when finalised post-acquisition, may be material.

SECTION B: Accountant's report on pro forma financial information

KPMG Audit Plc
15 Canada Square
London
E14 5GL

The Directors
Kier Group plc
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

14 May 2013

Dear Sirs

Kier Group plc

We report on the pro forma financial information (the "Pro forma financial information") set out in Section A of Part VIII of the combined Class 1 circular and prospectus dated 14 May 2013, which has been prepared on the basis described in notes 1 to 7, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by Kier Group plc in preparing the financial statements for the period ended 30 June 2012. This report is required by paragraph 13.3.3R of the Listing Rules of the Financial Conduct Authority and paragraph 20.2 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with those paragraphs and for no other purpose.

Responsibilities

It is the responsibility of the Directors of Kier Group plc to prepare the Pro forma financial information in accordance with paragraph 13.3.3R of the Listing Rules of the Financial Conduct Authority and paragraph 20.2 of Annex I of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion, we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6) and paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the combined Class 1 circular and prospectus.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of Kier Group plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Kier Group plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Kier Group plc.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG Audit Plc

PART IX

UNITED KINGDOM TAXATION CONSIDERATIONS

The comments set out below are based on current United Kingdom tax law and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) as at the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. They assume that the Finance Bill, as ordered to be printed on 25 March 2013, will be enacted without amendment. They are intended as a general guide and apply only to shareholders of the Company resident and, in the case of an individual, domiciled for tax purposes in the United Kingdom and to whom “split year” treatment does not apply (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold shares in the Company as an investment and who are the absolute beneficial owners thereof. In particular, shareholders holding their shares via a depositary receipt system or clearance service should note that they may not always be the absolute beneficial owners thereof. The discussion does not address all possible tax consequences relating to an investment in the shares. Certain categories of shareholders, including those carrying on certain financial activities, those subject to specific tax regimes or benefitting from certain reliefs or exemptions, those connected with the Company or Kier Group and those for whom the shares are employment-related securities, may be subject to special rules and this summary does not apply to such shareholders.

Shareholders or prospective shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately.

1 Taxation of dividends

General

The Company will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend.

Individual shareholders within the charge to United Kingdom income tax

A United Kingdom resident individual shareholder who receives a dividend from the Company will be entitled to a tax credit which may be set off against the shareholder’s total income tax liability. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the “gross dividend”), which is also equal to one-ninth of the cash dividend received. Such an individual shareholder who is liable to income tax at the basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full such shareholder’s liability to income tax on the dividend. In the case of such an individual shareholder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match the shareholder’s tax liability on the gross dividend and such shareholder will have to account for additional income tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend received) to the extent that the gross dividend when treated as the top slice of the shareholder’s income falls above the threshold for higher rate income tax. In the case of such an individual shareholder who is subject to income tax at the additional rate, the tax credit will also be set against but not fully match the shareholder’s liability on the gross dividend and such shareholder will have to account for additional income tax equal to 27.5 per cent. of the gross dividend (which is also equal to approximately 30.6 per cent. of the cash dividend received) to the extent that the gross dividend when treated as the top slice of the shareholder’s income falls above the threshold for additional rate income tax.

A United Kingdom resident individual shareholder who is not liable to income tax in respect of the gross dividend and other United Kingdom resident taxpayers who are not liable to United Kingdom tax on dividends will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Company.

Corporate shareholders within the charge to United Kingdom corporation tax

Shareholders who are within the charge to corporation tax will be subject to corporation tax on dividends paid by the Company, unless (subject to special rules for such shareholders that are small companies) the dividends fall within an exempt class and certain other conditions are met. Each shareholder's position will depend on its own individual circumstances, although it would normally be expected that the dividends paid by the Company would fall within an exempt class. Such shareholders will not be able to claim repayment of tax credits attaching to dividends.

Non-United Kingdom resident shareholders

Non-United Kingdom resident shareholders will not generally be able to claim repayment from HM Revenue & Customs of any part of the tax credit attaching to dividends paid by the Company. A shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law. Shareholders who are not resident for tax purposes in the United Kingdom should obtain their own tax advice concerning tax liabilities on dividends received from the Company.

2 Taxation of capital gains

Shareholders who are resident in the United Kingdom, or, in the case of individuals, who cease to be resident in the United Kingdom for a period of five years or less, may, depending on their circumstances (including the availability of exemptions or reliefs), be liable to United Kingdom taxation on chargeable gains in respect of gains arising from a sale or other disposal of shares in the Company.

3 Inheritance tax

Shares in the Company will be assets situated in the United Kingdom for the purposes of United Kingdom inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax, even if the holder is neither domiciled in the United Kingdom nor deemed to be domiciled there (under certain rules relating to long residence or previous domicile). Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold shares in the Company bringing them within the charge to inheritance tax. Holders of shares in the Company should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any shares in the Company through such a company or trust arrangement. They should also seek professional advice in a situation where there is potential for a double charge to United Kingdom inheritance tax and an equivalent tax in another country or if they are in any doubt about their United Kingdom inheritance tax position.

4 Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

The statements in this section are intended as a general guide to the current United Kingdom stamp duty and SDRT position. Investors should note that certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

General

Except in relation to depositary receipt systems and clearance services (to which the special rules outlined below apply), no stamp duty or SDRT will arise on the issue of shares in registered form by the Company.

An agreement to transfer shares in the Company will normally give rise to a charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer. SDRT is, in general, payable by the purchaser.

Transfers of shares in the Company will generally be subject to stamp duty at the rate of 0.5 per cent. of the consideration given for the transfer (rounded up to the next £5). The purchaser normally pays the stamp duty.

An exemption from stamp duty is available on an instrument transferring the shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000.

If a duly stamped transfer completing an agreement to transfer is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional), any SDRT paid is generally repayable, normally with interest, and otherwise the SDRT charge is cancelled.

CREST

Paperless transfers of shares in the Company within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Deposits of shares into CREST will not generally be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration.

Depository receipt systems and clearance services

Following the European Court of Justice's decision in *C-569/07 HSBC Holdings Plc, Vidacos Nominees Limited v The Commissioners of Her Majesty's Revenue & Customs* and the First-tier Tax Tribunal decision in *HSBC Holdings Plc and The Bank of New York Mellon Corporation v The Commissioners of Her Majesty's Revenue & Customs*, HM Revenue & Customs has confirmed that 1.5 per cent. SDRT is no longer payable when new shares are issued to a clearance service or depository receipt system.

Where shares in the Company are transferred (a) to, or to a nominee or an agent for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or an agent for, a person whose business is or includes issuing depository receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration given or, in certain circumstances, the value of the shares.

There is an exception from the 1.5 per cent. charge on the transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an election under section 97A(1) of the Finance Act 1986, which has been approved by HM Revenue & Customs. In these circumstances, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer will arise on any transfer of shares in the Company into such an account and on subsequent agreements to transfer such shares within such account.

Any liability for stamp duty or SDRT in respect of a transfer into a clearance service or depository receipt system, or in respect of a transfer within such a service, which does arise will strictly be accountable by the clearance service or depository receipt system operator or their nominee, as the case may be, but will, in practice, be payable by the participants in the clearance service or depository receipt system.

PART X

DIRECTORS, PERSONS RESPONSIBLE, CORPORATE GOVERNANCE AND EMPLOYEES

1 Persons responsible

The Company and the Kier Directors, whose names appear in paragraph 2 of this Part X, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Kier Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 The Kier Directors

The following table sets out certain information relating to the Kier Directors:

<i>Name</i>	<i>Current position</i>	<i>Date of birth</i>
Phil White	Chairman	29 September 1949
Paul Sheffield	Chief Executive	25 May 1961
Haydn Mursell	Finance Director	9 February 1971
Steve Bowcott	Executive Director	1 April 1955
Ian Lawson	Executive Director	17 September 1957
Chris Geoghegan	Senior Non-Executive Director	13 June 1954
Richard Bailey	Non-Executive Director	26 December 1951
Amanda Mellor	Non-Executive Director	7 March 1964
Nick Winser	Non-Executive Director	6 September 1960

The business address of each of the Kier Directors is Tempsford Hall, Sandy, Bedfordshire SG19 2BD.

3 Kier Directors' profiles

The name, business experience and principal business activities outside the Kier Group of the current Kier Directors, as well as the date of their initial appointment as Kier Directors, are set out below.

3.1 *Phil White (Chairman)*

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

In addition to these directorships and those within the Kier Group, Phil holds or has held in the past five years the following directorships:

<i>Company</i>	<i>Status (current/previous)</i>
Meridan Motor Group Ltd	Current
Mark Robinson Automotive Ltd	Current
Mark Robinson Holdings Ltd	Current
Vantage Garages (Blackburn) Ltd	Current

He has not been a partner in any partnerships during the past five years.

3.2 **Paul Sheffield (Chief Executive)**

Appointed chief executive in April 2010. He joined the Kier Group as a graduate civil engineer in 1983 and has extensive operational experience of building and infrastructure projects, both in the UK and overseas. Having run a number of business units across the construction division from 1998, he joined the Board in October 2005, where he assumed responsibility for the Kier Group’s construction activities. He holds the position of director with overall responsibility for safety, health and environmental matters.

Save for the directorships of members within the Kier Group, Paul has not held any other directorships or been a partner in any partnership in the past five years.

3.3 **Haydn Mursell (Finance Director)**

Joined Kier in August 2010 as Kier Group finance director designate and took over the role of Kier Group finance director in November 2010. He joined Kier from Balfour Beatty plc where he held the position of deputy group finance director. He is a member of the Institute of Chartered Accountants, having trained and qualified at KPMG in London. From 2001 until 2008, he held a number of senior finance roles at Lend Lease.

Save for directorships of members within the Kier Group, Haydn has not held any other directorships or been a partner in any partnerships in the past five years.

3.4 **Steve Bowcott (Executive Director)**

Appointed to the Kier Board in July 2010 as director responsible for the construction division. He has over 35 years’ experience in both building and civil engineering with Kier, Mowlem and AMEC in both the UK and overseas. He re-joined Kier in January 2007 as a director of the construction division responsible for the northern activities. In addition to his role as head of construction, he is a member of the CBI Committee in the north of England.

In addition to these directorships and those within the Kier Group, Steve holds or has held in the past five years the following directorships:

<i>Company</i>	<i>Status (current/previous)</i>
BBA Associates Limited	Previous
Digital Image Reprographics Limited	Previous

He has not been a partner in any partnerships during the past five years.

3.5 **Ian Lawson (Executive Director)**

After joining the industry in 1978, Ian gained 22 years of experience in both the UK and overseas across the building and infrastructure markets before re-joining the Kier Group in November 2000 as managing director of the Kier Group’s private finance investment business. In October 2005, he was appointed to the Kier Board. He has responsibility for the services and property divisions.

In addition to these directorships and those within the Kier Group, Ian holds or has held in the past five years the following directorships:

<i>Company</i>	<i>Status (current/previous)</i>
The Business Services Association	Previous

He has not been a partner in any partnerships during the past five years.

3.6 **Chris Geoghegan (Senior Non-Executive Director)**

Appointed to the Kier 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 a non-executive director of Volex plc and SIG plc, a Fellow of the Royal Aeronautical Society and a past president of the Society of British Aerospace Companies. He is the senior non-

executive director, the chairman of the Remuneration Committee and a member of the Risk Management and Audit Committee and the Nomination Committee.

In addition to these directorships and those within the Kier Group, Chris holds or has held in the past five years the following directorships:

<i>Company</i>	<i>Status (current/previous)</i>
Camelot UK Consulting Ltd	Current
Hampson Industries Plc	Previous

He has not been a partner in any partnerships during the past five years.

3.7 **Richard Bailey (Non-Executive Director)**

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

In addition to these directorships and those within the Kier Group, Richard holds or has held in the past five years the following directorships:

<i>Company</i>	<i>Status (current/previous)</i>
Chetham's Hall Ltd	Current
The Devisdale Management Company Ltd	Current
GE Commercial Finance (No.2) Ltd	Previous
Halle Concerts Society	Previous
NCCF Holdings Ltd	Previous
N M Rothschild Corporate Finance Ltd	Previous

He has not been a partner in any partnerships during the past five years.

3.8 **Amanda Mellor (Non-Executive Director)**

Appointed to the Kier Board in December 2011. She is currently the group secretary and head of corporate governance of Marks and Spencer Group plc, having previously been head of investor relations at Marks and Spencer Group plc and director of corporate relations at Arcadia Group plc. She spent her early career in investment banking at James Capel and Robert Fleming. She was accredited as a legal mediator in 2002. She is also on the advisory board of Leeds University Business School. She is chair of the Nomination Committee and a member of the Risk Management and Audit Committee, the Remuneration Committee and the SHE Committee.

Save for directorships of members of the Kier Group, Amanda has not held any other directorships or been a partner in any partnerships in the past five years.

3.9 **Nick Winsor (Independent Non-Executive Director)**

Appointed to the Kier Board in March 2009. He joined the board of National Grid in April 2003 and is responsible for the company's business in the UK. He was previously chief operating officer of US transmission for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming director of engineering in 2001. He is the chairman of the SHE Committee and a member of the Risk Management and Audit Committee, the Nomination Committee and the Remuneration Committee. He was also appointed as chairman of CIGRE UK in August 2012.

In addition to these directorships and those within the Kier Group, Nick holds or has held in the past five years the following directorships:

<i>Company</i>	<i>Status (current/previous)</i>
GridAmerica Holdings Inc.	Previous
Mid Warwickshire Society for Mentally Handicapped Children and Adults	Current
National Grid Electricity Transmission Plc	Current
National Grid Gas Plc	Current
National Grid Gas Holdings Ltd	Current
National Grid UK Ltd	Current
National Grid USA	Previous
National Grid Grain LNG Ltd	Previous
NGET/SPT Upgrades Ltd	Previous

He has not been a partner in any partnerships during the past five years.

4 Interests of the Kier Directors

As at 13 May 2013 (being the latest practicable date prior to the publication of this document), the interests (including beneficial interests) of the Kier Directors, their immediate families and (so far as is known to them or could with reasonable diligence be ascertained by them) persons connected (within the meaning of section 252 of the Companies Act) with the Kier Directors in the issued share capital of Kier, including: (i) those arising pursuant to transactions notified to Kier pursuant to DTR 3.1.2R or (ii) those of connected persons of the Kier Directors, which would, if such connected person were a Kier Director, be required to be disclosed under (i) above, together with such interests as are expected to subsist immediately following Admission are set out in the following table.

<i>Name of Kier Director</i>	<i>As at 13 May 2013</i>		<i>Interests immediately following Admission⁽¹⁾</i>	
	<i>Number of Kier Shares</i>	<i>Percentage of issued share capital of Kier</i>	<i>Number of Kier Shares</i>	<i>Percentage of issued share capital of Enlarged Group</i>
Phil White	2,540	0.01	2,540	0.00
Paul Sheffield	63,542	0.16	63,542	0.12
Haydn Mursell	10,656	0.03	10,656	0.02
Steve Bowcott	12,102	0.03	12,102	0.02
Ian Lawson	43,043	0.11	43,043	0.08
Chris Geoghegan	5,000	0.01	5,000	0.01
Richard Bailey	–	–	–	–
Amanda Mellor	–	–	–	–
Nick Winser	3,500	0.01	3,500	0.01

Note:

(1) Figures are calculated assuming that (i) 14,714,445 Kier Shares are issued in connection with the Acquisition; and (ii) no May Gurney Shares or other Kier Shares are issued between 13 May 2013 and the Effective Date.

Taken together, the combined percentage interest of the Kier Directors in the issued ordinary share capital of Kier as at 13 May 2013 was approximately 0.35 per cent. Taken together, the combined percentage interest in the issued ordinary share capital of Kier of the Kier Directors immediately following Admission will be approximately 0.26 per cent. (on the basis of the assumptions set out in the note to the table above).

The table above includes beneficial interests in Kier Shares under the DBA and AESOP. In addition, there are outstanding awards and options over Kier Shares held by the Kier Directors pursuant to the 2010 LTIP and the Sharesave Scheme, as set out in the table below. Further information on the Kier Share Schemes is set out in paragraph 11 of this Part X.

<i>Name of Kier Director</i>	<i>Unvested Kier Shares under 2010 LTIP⁽¹⁾</i>	<i>Unexercised options under Sharesave Scheme⁽²⁾</i>
Phil White	–	–
Paul Sheffield	99,477	857
Haydn Mursell	96,450	784
Steve Bowcott	71,953	857
Ian Lawson	84,438	857
Chris Geoghegan	–	–
Richard Bailey	–	–
Amanda Mellor	–	–
Nick Winser	–	–

Note:

- (1) The vesting of awards under the 2010 LTIP is subject to continued employment and the satisfaction of performance conditions.
- (2) Assumes that the individuals continue to make the maximum permitted contribution to the Sharesave Scheme until the commencement of the relevant exercise period.

5 Remuneration of the Kier Directors

This section provides information on the remuneration arrangements for the Kier Directors.

The aggregate remuneration for the Kier Directors for the year ended 30 June 2012 was £3.247 million (2011: £3.639 million).

The Kier Directors' remuneration is reviewed annually by the Remuneration Committee and, in the ordinary course of events, any changes take effect from 1 July. At each review, the Remuneration Committee considers the experience and performance of Kier's executive directors in their roles over the previous year against a number of key performance indicators relating to both individual and corporate measures of performance. The relevant Kier Director's experience and performance are then considered against the market positioning of pay for the relevant role. The Remuneration Committee also takes into account pay and employment conditions across the Kier Group when determining the remuneration of Kier's executive directors. The remuneration of Kier's non-executive directors reflects the anticipated time commitment to fulfil their duties.

The Remuneration Committee determined that, with effect from 1 July 2012, the executive directors' basic salaries would increase as follows:

<i>Name of Kier Director</i>	<i>From 1 July 2012 (£000)</i>	<i>From 1 July 2011 (£000)</i>	<i>Increase %</i>
Paul Sheffield	469	460	2
Haydn Mursell	343	330 ⁽¹⁾	4
Steve Bowcott	343	330	4
Ian Lawson	393	385	2

Note:

- (1) With effect from 1 November 2011.

These increases were in the line with the prevailing rate of inflation and were also within the range of increases awarded to employees across the Kier Group.

It was also decided that the fees payable to the non-executive directors would increase with effect from 1 July 2012, as follows:

<i>Name of Kier Director</i>	<i>From 1 July</i>	<i>From 1 July</i>
	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>
Phil White	162	158
Chris Geoghegan ⁽¹⁾	55	54
Richard Bailey ⁽²⁾	53	52
Amanda Mellor ⁽³⁾	54	43
Nick Winser	44	43

Notes:

- (1) The fees payable to Chris Geoghegan include an amount in respect of his positions as senior independent non-executive director and chairman of the Remuneration Committee.
- (2) The fees payable to Richard Bailey include an amount in respect of his position as chairman of the Risk Management and Audit Committee.
- (3) Amanda Mellor was appointed to the board with effect from 1 December 2011.

6 Kier Directors' service contracts and letters of appointment

The dates of each Kier Director's original appointment and notice period are as set out below:

<i>Name of Kier Director</i>	<i>Date of appointment</i>	<i>Notice period</i>
Phil White	2 January 2008	1 month by either party
Paul Sheffield	1 October 2005	12 months by either party
Haydn Mursell	18 August 2011	12 months by either party
Steve Bowcott	1 July 2010	12 months by either party
Ian Lawson	1 October 2005	12 months by either party
Chris Geoghegan	1 July 2007	3 months by either party
Richard Bailey	1 October 2010	1 month by either party
Amanda Mellor	1 December 2011	1 month by either party
Nick Winser	1 March 2009	1 month by either party

There is no provision in the service agreements of Kier's executive directors for the payment of pre-determined compensation in the case of wrongful termination by the Kier Group and the duty to mitigate loss would apply.

7 Directors' confirmations

No Kier Director has, during the five years prior to the date of this document:

- (a) been convicted in relation to a fraudulent offence;
- (b) been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or of senior manager of any company;
- (c) been subject to any official public incrimination and/or sanction by statutory or regulatory authorities (including designated professional bodies); or
- (d) been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer.

8 Conflicts of interest

In respect of any Kier Director, there are no actual or potential conflicts of interests between any duties they have to the Company, either in respect of the Acquisition or otherwise, and the private interests and/or other duties they may also have.

No Kier Director has, or had during the year ended 2012, a material interest in any significant contract with Kier or any of its subsidiaries.

No Kier Director was selected to be a director of Kier pursuant to any arrangement or understanding with any major customer, supplier or other person having a business connection with the Kier Group.

No restrictions have been agreed by any Kier Director on the disposal within a certain period of time of his holding in Kier securities.

There are no family relationships between any of the Kier Directors.

9 Corporate governance

9.1 Board practices

The UK Corporate Governance Code recommends that at least half the members of the board of directors (excluding the chairman) of a public limited company incorporated in the UK should be independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement. As at the date of this document, Kier is in compliance with the provisions of the UK Corporate Governance Code.

The Enlarged Group Board will comprise nine members: the Chairman and the Chief Executive, three other executive directors and four other non-executive directors. The board composition of the Enlarged Group Board will be the same as the current Kier Board.

The roles of the Chairman and the Chief Executive of the Enlarged Group will be distinct and separate, with a clear division of responsibilities.

9.2 Board committees

The committees described below will be in existence under the Enlarged Group Board structure. Each committee would continue to have formally delegated duties and responsibilities with written terms of reference. From time to time, separate committees may be set up by the Enlarged Group Board to consider specific issues when the need arises.

9.3 Nomination Committee

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

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

9.4 Remuneration Committee

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

The committee makes recommendations to the Kier Board on Kier'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.

9.5 *Risk Management and Audit Committee*

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

The committee has clearly defined terms of reference which outline its objectives and responsibilities relating to financial reporting, internal controls, risk management and the application of appropriate accounting policies and procedures. The committee is responsible for overseeing the Kier Group's internal audit function.

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

9.6 *SHE Committee*

The SHE Committee comprises no fewer than two Kier Directors. The current members of the committee are Nick Winser (chairman) and Amanda Mellor. The Chief Executive, Kier's other executive directors and the Kier Group Director of Safety, Health and Environment are invited to attend the meetings of the committee, unless they are notified to the contrary. The secretary of the SHE committee is Hugh Raven.

The committee is responsible, among other matters, for reviewing the Kier Group's strategy with respect to SHE matters and its exposure to SHE risks and monitoring the Kier Group's performance against SHE targets. The committee also reviews and approves, where considered necessary, Kier Group SHE initiatives, policies and procedures.

10 **Employees**

10.1 *Kier Group*

The average number of staff employed by the Kier Group for the years ended 30 June 2010, 2011 and 2012 is set out below:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Number of employees (excluding the Kier Directors)	10,768	10,676	11,597

As at 31 March 2013, the Kier Group employed 9,539 persons (excluding the Kier Directors).

10.2 *May Gurney Group*

The average number of staff employed by the May Gurney Group for the years ended 31 March 2010, 2011 and 2012 is set out below:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Number of employees (excluding the May Gurney Directors)	5,923	4,708	3,873

As at 31 March 2013, the May Gurney Group employed 5,943 persons (excluding the May Gurney Directors).

11 **Kier Share Schemes**

11.1 *Kier Group 2010 Long-Term Incentive Plan*

(A) *Overview*

The 2010 LTIP was approved by Kier Shareholders at the annual general meeting on 12 November 2010. The 2010 LTIP allows for the grant of conditional share awards and other share rights (e.g. options) with a maximum total market value of up to 200 per cent. of annual

base salary. The 2010 LTIP also allows for cash-settled share awards. All awards under the 2010 LTIP are subject to performance conditions as set out below.

(B) *Eligibility*

Any employee (including an executive director) of Kier and its subsidiaries will be eligible to participate in the 2010 LTIP at the discretion of the Remuneration Committee.

(C) *Grant of awards*

The Remuneration Committee may grant awards under the 2010 LTIP within 42 days following: (a) Kier's announcement of its results for any period; (b) any amendments to the 2010 LTIP having been adopted; (c) any date following the commencement of an eligible employee's commencement of employment; or (d) at any other time when the Remuneration Committee considers there are exceptional circumstances which justify the granting of awards. No awards may be granted after the 10th anniversary of the 2010 LTIP's adoption (12 November 2020).

The Remuneration Committee may grant awards as conditional awards or as options (either at nil cost or with an exercise price). The Remuneration Committee may also decide to grant cash-based conditional awards of an equivalent value to share-based conditional awards or to satisfy share-based options/awards in cash.

(D) *Individual and plan limits*

An employee may not receive awards in any financial year over Kier Shares having a total market value in excess of 200 per cent. of his annual base salary.

In any 10-year period, Kier may not issue new Kier Shares or transfer treasury Kier Shares (or grant rights to issue new or to transfer treasury Kier Shares) in respect of more than:

- 10 per cent. of the issued ordinary share capital of Kier under the 2010 LTIP and/or any other share plan operated by Kier; and
- 5 per cent. of the issued ordinary share capital of Kier under the 2010 LTIP and/or any other share Kier executive share plan.

Treasury Kier Shares shall not count towards these limits if institutional investor guidelines cease to require them to be so counted.

(E) *Vesting of awards*

The vesting of awards will be subject to performance conditions set by the Remuneration Committee.

The Remuneration Committee may, in exceptional circumstances, vary the performance conditions applying to existing awards if the Remuneration Committee considers it appropriate to do so and provided the Remuneration Committee acts fairly and reasonably in making the alteration and provided that the amended condition is no more difficult to satisfy than the original condition.

Awards will usually vest at the later of the end of any applicable performance period (i.e. once the achievement of the condition has been determined) and the third anniversary of the date of grant (or such later date as the Remuneration Committee may decide).

Awards may be satisfied using new issue Kier Shares, treasury Kier Shares or Kier Shares purchased in the market.

(F) *Cessation of employment*

An award will normally lapse where a participant ceases employment with the Kier Group before he became entitled to receive shares, unless the employment ceases due to death, ill-health, injury, disability, retirement, a sale of the employing business or company or for other reasons specifically allowed by the Remuneration Committee.

If a participant ceases employment in such circumstances, an award which is subject to a performance condition will normally continue until the original vesting date. The performance conditions will then be applied and the number of shares acquired may, at the Remuneration Committee's discretion, be reduced on a *pro rata* basis to take account of the proportion of the performance period when the participant was not in employment.

Alternatively, the Remuneration Committee may use its discretion to determine that awards will vest immediately on cessation but only to the extent that the performance condition has been or is likely to be, in the opinion of the Remuneration Committee, satisfied up to the date of cessation of employment. Awards may be pro rated for time as described above.

(G) *Change of control*

In the event of a change of control of Kier or similar corporate event (not being an internal corporate reorganisation), all awards will vest early to such extent determined and subject to the Remuneration Committee's assessment of: (i) the extent that any performance condition has been satisfied at that time and is expected to be satisfied at the end of the performance period; (ii) the period of time which has elapsed between grant and normal vesting; and (iii) any other factors which the Remuneration Committee considers relevant.

(H) *Alteration of the capital*

In the event of any variation of Kier's share capital (e.g. capitalisation issue, rights issue, subdivision or consolidation), or in the event of a demerger or other transaction which may affect the value of an award, the grantor (following consultation with the Remuneration Committee) may make such adjustment to awards (including to any exercise price) as it considers to be fair and reasonable.

(I) *Amendment of the 2010 LTIP*

The Remuneration Committee may, at any time, amend the 2010 LTIP in any respect, provided that the prior approval of Kier Shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Kier Shares or the transfer of treasury Kier Shares, the provisions relating to cessation of employment, change of control and alteration of the capital.

The requirement to obtain the prior approval of Kier Shareholders will not, however, apply to any minor amendment made to benefit the administration of the 2010 LTIP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Kier Group.

Amendments in respect of existing awards which are to the disadvantage of participants may only be made with the participants' consent.

(J) *General*

No payment is required for the grant of award under the 2010 LTIP. Awards are not pensionable or transferable except on death.

Awards will not confer any shareholder rights until awards have vested or options have been exercised and the participants have received the underlying Kier Shares.

The Remuneration Committee may from time to time amend the 2010 LTIP to comply with or take account of overseas legal rules, taxation or securities laws.

11.2 *Kier Group 2006 Sharesave Scheme*

(A) *Overview*

The Sharesave Scheme was approved by Kier Shareholders at the annual general meeting on 25 November 2006 and has been approved by HMRC as a scheme which provides UK tax-favoured options to UK employees. It allows for the grant of options to all employees of the Kier Group (although only UK employees can receive UK tax-favoured options) within certain limits. Where Kier decides to operate the Sharesave Scheme, all UK resident tax-paying employees and full time directors must be invited to participate on the same terms.

(B) *Eligibility*

Employees and full-time directors of the Company and any designated participating subsidiary who are UK resident taxpayers are eligible to participate. The Kier Board may require employees to have completed a qualifying period of employment before they are eligible to enrol in the plan.

(C) *Grant of options*

Invitations to participate may be issued at any time but must take account of when the option price may be determined (see below). Options can only be granted to employees who enter into HMRC-approved savings contracts, under which monthly savings are normally made over a period of three years. Options must be granted within 30 days (or 42 days if applications are scaled back) of the first day by reference to which the exercise price is set. The number of Kier Shares over which an option is granted will be such that the total exercise price payable for those Kier Shares will correspond to the savings contributions on maturity of the related savings contract.

(D) *Plan limit*

In any 10-year period, Kier may not issue or transfer treasury Kier Shares (or grant rights to issue or to transfer treasury Kier Shares) in respect of more than 10 per cent. of the issued ordinary share capital of Kier under the Sharesave Scheme and any other share option plan adopted by Kier or any other employee share plan operated by Kier.

Kier Shares held in treasury will not count towards these limits if institutional investor guidelines cease to require them to be so counted.

(E) *Savings limits*

Monthly savings by an employee under all savings contracts linked to options granted under the Sharesave Scheme and any other sharesave plan may not exceed the statutory maximum (currently £250). The Kier Board may set a lower limit in relation to any particular grant. The minimum monthly savings must not be less than the statutory minimum (currently £5).

(F) *Exercise price*

The exercise price per Kier Share payable upon the exercise of an option must be not manifestly less than 80 per cent. of the market value (defined in the plan rules) of a Kier Share on the day before invitations were sent to participants or on such later date set out in the invitation (which must be no later than the date of grant) and, if the option relates only to new issue Kier Shares, must also not be less than the nominal value of a Kier Share.

(G) *Exercise of options*

Options will normally be exercisable for a period of six months from the third anniversary of the commencement of the related savings contracts. After this period, the option lapses. Early exercise of options is permitted for six months when a participant reaches 65 or if he leaves for a specific reason (see below).

Options may be satisfied using new issue Kier Shares, treasury Kier Shares or Kier Shares purchased in the market.

(H) *Cessation of employment*

Unless the participant ceases employment for one of the circumstances set out below, his option will normally lapse on cessation. The circumstances are:

- death;
- cessation by reason of injury, disability or redundancy;
- retirement on reaching age 65 (or any other age at which the employee is bound to retire under his contract of employment);
- the business or company in which the participant works for ceasing to be part of the Kier Group; and
- following cessation of employment where employment ceases more than three years from grant by reason of retirement (before the age at which he is bound to retire under his contract of employment).

Where an option becomes exercisable by reason of cessation of employment, it must be exercised within six months (or 12 in the case of death) after which it will lapse.

(I) *Change of control*

In the event of a change of control of Kier, or voluntary winding-up of Kier, options may be exercised early to the extent of the participants' savings as at the time of the event. Alternatively, a participant may agree to exchange his options for an equivalent new option over shares in the new acquiring company.

(J) *Variation of capital*

If there is a variation in Kier's share capital, the Kier Board may, subject to prior HMRC approval, make such adjustments as it considers appropriate to the number of Kier Shares under option and the exercise price.

(K) *Amendment of the Sharesave Scheme*

The Kier Board may, at any time, amend the provisions of the Sharesave Scheme, provided that the prior approval of Kier Shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, individual limits on participation, the overall limits on the issue of Kier Shares or the transfer of treasury Kier Shares, the basis for determining a participant's entitlement to, and the terms of, the Kier Shares to be provided, the adjustment of options in the event of a rights issue or other variation of capital, or the amendment provisions.

The requirement to obtain the prior approval of Kier Shareholders will not, however, apply to any minor alteration made to benefit the administration of the Sharesave Scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Kier Group.

No amendment which would materially prejudice the interests of participants in respect of outstanding options may be made unless the consent of such participants has been obtained.

No alteration to a key feature of the Sharesave Scheme may be made without the approval of HMRC.

(L) *General*

No payment is required for the grant of an option under the Sharesave Scheme. Sharesave Scheme options are not pensionable or transferable except on death.

Options will not confer any shareholder rights until options have been exercised and the participants have received the underlying Kier Shares.

11.3 *Kier Group All Employee Share Ownership Plan*

(A) *Overview*

Under the AESOP, three types of shares can be offered to employees based in the UK - free, partnership and matching shares. The AESOP rules contain all three elements, and the Kier Board has power to decide which, if any, of them should be implemented. At present, participants are offered partnership and matching shares.

The AESOP operates in conjunction with a trust, which holds shares on behalf of employees. The AESOP has been approved by HMRC.

(B) *Eligibility*

Employees and full-time directors of the Company and any designated participating subsidiary who are UK resident taxpayers are eligible to participate. The Kier Board may require employees to have completed a qualifying period of employment before they are eligible to enrol in the plan.

(C) *Free shares*

The AESOP provides for the award of free shares worth up to a maximum set by the legislation (currently £3,000) to each eligible employee each year. The shares must generally be offered on similar terms, but the award may be subject to performance targets. "Similar terms" means the terms may only be varied by reference to remuneration, length of service or hours worked.

Free shares must be held in trust for a period of between three and five years at the discretion of the Company and will be free of income tax and national insurance if held in trust for five years. If a participant ceases employment with the Kier Group, his shares cease to be subject to the AESOP. The shares may be forfeited if the participant leaves employment within three years of the award other than by reason of death, retirement, redundancy, injury or disability, or his employing company or business being sold out of the Kier Group.

(D) *Partnership shares*

The AESOP provides for employees to be offered the opportunity to purchase shares out of monthly contributions from pre-tax salary of up to the maximum set by the legislation (currently £1,500 in each tax year, or 10 per cent. of salary if less). Employees can stop contributing at any stage. The employees' contributions may be used to buy partnership shares immediately or accumulated for up to 12 months before they are used to buy shares. Where they are accumulated, the price at which they are acquired is the lesser of the price at the beginning of the accumulation period and the end of the accumulation period. Currently there is no accumulation period.

Partnership shares can be withdrawn from the AESOP by the participant at any time, but there will be an income tax and national insurance liability if the shares are withdrawn before five years.

(E) *Matching shares*

The AESOP provides that, where employees buy partnership shares, they may be awarded additional shares by the Company on a matching basis, up to a current maximum of two matching shares for each partnership share (currently one matching share is awarded for each two partnership shares bought). Matching shares must be held in trust for a minimum of three years and will be free of income tax and national insurance liability if held in trust for five years.

If a participant withdraws his corresponding partnership shares before the trustees have held them for three years, he will forfeit the linked matching shares. If the participant ceases to be employed within the minimum three-year period (or within such shorter period as the directors may decide) other than for a specified reason such as death, retirement, redundancy, injury or disability, or his employing company or business being sold out of the Kier Group, his matching shares may be forfeited.

(F) *Dividends*

The AESOP provides that the Kier Board may permit any dividends paid on the free, partnership or matching shares to be reinvested in the purchase of additional shares, which must be held in the AESOP for a period of three years.

(G) *Voting rights*

Participants may be offered the opportunity to direct the trustees how to exercise the voting rights attributable to the AESOP shares held on their behalf. The trustees will not exercise the voting rights unless they receive the participants' instructions.

(H) *Plan limits*

Commitments to issue new Kier Shares or transfer treasury Kier Shares may not, on any day, exceed 10 per cent. of the issued ordinary share capital of the Company in issue immediately before that day when added to the total number of ordinary shares which have been allocated in the previous 10 years under the AESOP and any other employee share plan operated by the Company.

Treasury Kier Shares shall not count towards these limits if institutional investor guidelines cease to require them to be so counted.

(I) *Amendment of the AESOP*

The Kier Board may, at any time, amend the provisions of the AESOP, provided that the prior approval of Kier Shareholders is obtained for any amendments that are to the advantage of participants in respect of the limits on the number of Kier Shares which may be issued or transferred from treasury under the AESOP, individual limits on participation, the basis for determining a participant's entitlement to shares or cash under the AESOP or the adjustments of awards in the event of a variation of capital and the amendment rule.

The requirement to obtain the prior approval of Kier Shareholders will not, however, apply to any minor alteration made to benefit the administration of the AESOP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Kier Group.

No amendment which would materially prejudice the interests of participants in respect of existing Kier Shares held under the AESOP may be made.

No alteration to a key feature of the AESOP may be made without the approval of HMRC.

(J) *General*

Awards and Kier Shares under the AESOP are not pensionable or transferable except on death.

11.4 *Deferred Bonus Arrangement*

(A) *Overview*

In connection with the Kier's discretionary annual bonus plan, Kier operates the DBA in respect of selected senior employees. The DBA has been operated in respect of bonuses relating to the 2011 and 2012 financial years.

Under the DBA, up to one-third of the participant's after-tax annual cash bonus is used to acquire Kier Shares ("Bonus Shares") which are held on behalf of the participant by a trustee for a three-year deferral period. Scrip dividends relating to the Bonus Shares are allotted to the participant directly.

(B) *Eligibility*

The Kier Directors may select any employee, who is due to receive an annual cash bonus, for participation in the DBA. To date, the DBA has been operated in respect of members of senior management.

(C) *Acquisition of Bonus Shares*

On or shortly after the bonus date, Kier will procure that an amount equal to one-third or one-quarter of the after-tax bonus, as determined, is applied in the acquisition of Bonus Shares. The Bonus Shares will be acquired at market value at the time of acquisition.

The Bonus Shares will then be held by the trustee for a three-year deferral period, after which they will be released to the participant.

(D) *Rights*

During the deferral period, the participant remains the beneficial owner of the Bonus Shares and will be entitled to dividends. However, the participant will not be able to dispose of the Bonus Shares until release.

(E) *Cessation of employment and forfeiture*

If the participant ceases employment or dies before the end of the deferral period, the Bonus Shares will normally be released to him or his estate in full.

However, if cessation of employment is due to gross misconduct and/or the circumstances justify summary dismissal or if the Kier Group's profits or month-end cash position are found to have been mis-stated, the Bonus Shares will be forfeited.

(F) *Change of control*

In the event of the change of control of Kier or the participant's employing company, or if Kier is voluntarily wound up, the Bonus Shares will be released immediately before the relevant event (or otherwise as the Remuneration Committee determines).

12 **Pensions**

12.1 *Kier Group Pension Scheme*

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

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

The latest actuarial valuation of the defined benefit section of the Kier Group Pension Scheme was undertaken by the Kier Pension Trustees' independent actuaries as at 1 April 2010 using the projected unit method. The market value of the Kier Group Pension Scheme's assets at that date was £622.0 million which represented approximately 88 per cent. of the benefits that had accrued to members at that date, after allowing for future increases in salaries. The contributions paid during the year ended 30 June 2012 were £20.9 million (2011: £22.8 million) which included special contributions of £11.1 million (2011: £12.5 million) to reduce the past service deficit.

Going forward, contributions will include an allowance for funding the past service deficit identified at the 2010 valuation date. The Kier Group expects to pay contributions for future service of £10.5 million, being 20.5 per cent. of pensionable pay, plus £15.5 million for funding the past service deficit in the year ending 30 June 2013.

Work has commenced on a triennial actuarial valuation of the Kier Group Pension Scheme as at 1 April 2013. This may result in changes to the rate of contributions payable to the Kier Group Pension Scheme by the Kier Group.

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

Following closure of the defined benefit section of the Kier Group Pension Scheme to new entrants in 2002, most new employees are offered membership of the defined contribution section of the Kier Group Pension Scheme (or another defined contribution arrangement). The Kier 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 financial year ended 30 June 2012, and the pension charge, amounted to £12.7 million.

The majority of employees in the Kier Group will become subject to statutory automatic enrolment on 1 July 2013. All affected employees who are not already a member of a Kier Group pension will be automatically enrolled in a defined contribution arrangement to which the Kier Group will be required to contribute in accordance with its statutory duties.

12.2 *Kier Sheffield LLP*

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

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 projected unit method. The contributions paid during the 2012 financial year were £2.2 million (2011: £1.3 million). Going forward, Kier Sheffield LLP expects to pay contributions for future service at the rate of 11.3 per cent. of pensionable pay, which the fund's actuary has determined is sufficient to meet ongoing benefits.

Work has commenced on a triennial actuarial valuation of Kier Sheffield LLP's participation in the South Yorkshire Pension Scheme as at 1 April 2013. This may result in changes to the rate of contributions payable to the South Yorkshire Pension Scheme by Kier Sheffield LLP. On termination of the contract with Sheffield Council, Kier Sheffield LLP will be required to make an additional contribution to the South Yorkshire Pension Fund equal to the ongoing past service deficit (if any) relating to Kier Sheffield LLP's participation.

12.3 *Other schemes*

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

PART XI

ADDITIONAL INFORMATION

1 The Company

The Company was incorporated and registered in England and Wales on 21 April 1992, with registered number 02708030, as a company limited by shares under the Companies Act 1948 to 1986, with the name De facto 265 Limited, which was subsequently changed to Kier Group Limited on 10 June 1992. The Company was re-registered as Kier Group plc on 6 July 1992.

The principal legislation under which the Company operates, and pursuant to which the New Kier Shares will be created, is the Companies Act and regulations made thereunder.

The Company is domiciled in the United Kingdom and its registered and head office is at Tempsford Hall, Sandy, Bedfordshire SG19 2BD. The Company's main telephone number is +44 (0) 1767 640 111.

The Existing Kier Shares are listed on the Official List of the FCA and admitted to trading on the main market of the London Stock Exchange. The ISIN of the Existing Kier Shares is GB0004915632.

2 Share capital

2.1 The following table shows the issued share capital of the Company as at 13 May 2013 (being the latest practicable date prior to the publication of this document) and the issued share capital of the Company immediately following completion of the Acquisition (assuming that (i) 14,714,445 Kier Shares are issued pursuant to the Acquisition; and (ii) no May Gurney Shares or other Kier Shares are issued between 13 May 2013 and the Effective Date):

	<i>Kier Shares prior to the Acquisition</i>		<i>Kier Shares following the Acquisition</i>	
	<i>Number</i>	<i>(£)</i>	<i>Number</i>	<i>(£)</i>
Issued and fully paid	39,810,675	398,106.75	54,525,120	545,251.25

Save as disclosed in paragraph 2.2 of this Part XI, during the three years immediately preceding 13 May 2013 (being the latest practicable date prior to the publication of this document), there has been no issue of Kier Shares, fully or partly paid, either in cash or for other consideration and other than in connection with the Acquisition, the Kier Share Schemes or the scrip dividend alternative relating to Kier's interim dividend in respect of its 2013 financial year, no such issues are proposed.

As at 13 May 2013 (being the latest practicable date prior to the publication of this document), RBC, as trustee of the EBT, held 485,522 Kier Shares (approximately 1.2 per cent. of the issued share capital of the Company) on trust for the benefit of the Kier Directors and certain senior managers of the Kier Group. RBC waives the dividends payable in respect of 455,686 shares but elected to take-up the dividend in respect of 29,836 shares (being the shares to which certain directors and senior managers are beneficially entitled as a result of the 2011 and 2012 annual bonus being satisfied in part by an allocation of shares). RBC, in turn, transferred the dividend to the relevant Kier Directors and senior managers.

As at the same date, Computershare Investor Services PLC held 959,514 Kier Shares (approximately 2.4 per cent. of the issued share capital of the Company) on trust for the benefit of staff and former staff who are members of the AESOP.

As at the date of this document, Kier holds no treasury shares.

The Existing Kier Shares are admitted to the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on the main market for listed securities of the London Stock Exchange.

2.2 *History of ordinary share capital*

As at 1 July 2009, the first day covered by the historical financial information incorporated by reference in this document, the Company's issued share capital amounted to £372,218.69 divided into 37,221,689 ordinary shares of 1 pence each. Since 1 July 2009, during the period covered by the historical financial information incorporated by reference in this document, the following changes have occurred to the issued share capital of the Company:

Changes in share capital since 1 July 2009

<i>Date</i>	<i>Reason for allotment</i>	<i>Shares allotted</i>	<i>Price per share</i>	<i>Total issued share capital</i>
4 December 2009	Sharesave Scheme	200	£7.500	37,222,069
12 January 2010	Sharesave Scheme	120	£7.500	37,222,189
3 February 2010	Sharesave Scheme	93	£7.500	37,222,282
4 March 2010	Sharesave Scheme	120	£7.500	37,222,402
4 March 2010	Sharesave Scheme	120	£7.500	37,222,522
4 March 2010	Sharesave Scheme	300	£7.500	37,222,822
16 March 2010	Sharesave Scheme	144	£7.500	37,222,966
16 March 2010	Sharesave Scheme	300	£7.500	37,223,266
8 April 2010	Sharesave Scheme	266	£7.500	37,223,532
14 April 2010	Sharesave Scheme	96	£7.500	37,223,628
14 April 2010	Sharesave Scheme	120	£7.500	37,223,748
19 April 2010	Sharesave Scheme	108	£7.500	37,223,856
4 May 2010	Scrip dividend	251,083	£10.580	37,474,939
5 May 2010	Sharesave Scheme	133	£7.500	37,475,072
5 May 2010	Sharesave Scheme	56	£7.500	37,475,128
7 May 2010	Sharesave Scheme	73	£7.500	37,475,201
7 May 2010	Sharesave Scheme	146	£7.500	37,475,347
7 May 2010	Sharesave Scheme	60	£7.500	37,475,407
7 May 2010	Sharesave Scheme	366	£7.500	37,475,773
21 May 2010	Sharesave Scheme	146	£7.500	37,475,919
21 May 2010	Sharesave Scheme	366	£7.500	37,476,285
21 May 2010	Sharesave Scheme	102	£7.500	37,476,387
4 June 2010	Sharesave Scheme	73	£7.500	37,476,460
4 June 2010	Sharesave Scheme	117	£7.500	37,476,577
4 June 2010	Sharesave Scheme	293	£7.500	37,476,870
4 June 2010	Sharesave Scheme	150	£7.500	37,477,020
4 June 2010	Sharesave Scheme	220	£7.500	37,477,240
25 June 2010	Sharesave Scheme	146	£7.500	37,477,386
18 August 2010	Sharesave Scheme	280	£7.500	37,477,666
23 August 2010	Sharesave Scheme	467	£7.500	37,478,133
13 September 2010	Sharesave Scheme	160	£7.500	37,478,293
5 October 2010	Sharesave Scheme	200	£7.500	37,478,493
8 October 2010	Sharesave Scheme	535	£7.500	37,479,028
8 October 2010	Sharesave Scheme	535	£7.500	37,479,563
8 October 2010	Sharesave Scheme	58	£10.250	37,479,621
22 October 2010	Sharesave Scheme	256	£7.500	37,479,877
8 November 2010	Sharesave Scheme	321	£7.500	37,480,198
8 November 2010	Sharesave Scheme	568	£7.500	37,480,766
18 November 2010	Sharesave Scheme	113	£7.500	37,480,879
26 November 2010	Scrip dividend	424,468	£11.494	37,905,347
1 December 2010	Sharesave Scheme	568	£7.500	37,905,915
6 December 2010	Sharesave Scheme	70	£10.250	37,905,985
21 December 2010	Sharesave Scheme	240	£7.500	37,906,225
4 January 2011	Sharesave Scheme	481	£7.500	37,906,706

<i>Date</i>	<i>Reason for allotment</i>	<i>Shares allotted</i>	<i>Price per share</i>	<i>Total issued share capital</i>
4 January 2011	Sharesave Scheme	29	£10.250	37,906,735
4 January 2011	Sharesave Scheme	120	£7.500	37,906,855
4 January 2011	Sharesave Scheme	58	£10.250	37,906,913
10 January 2011	Sharesave Scheme	266	£7.500	37,907,179
10 January 2011	Sharesave Scheme	254	£7.500	37,907,433
24 January 2011	Sharesave Scheme	60	£7.500	37,907,493
24 January 2011	Sharesave Scheme	635	£7.500	37,908,128
24 January 2011	Sharesave Scheme	68	£10.250	37,908,196
2 February 2011	Sharesave Scheme	535	£7.500	37,908,731
8 February 2011	Sharesave Scheme	68	£10.250	37,908,799
8 February 2011	Sharesave Scheme	254	£7.500	37,909,053
8 February 2011	Sharesave Scheme	669	£7.500	37,909,722
14 February 2011	Sharesave Scheme	267	£7.500	37,909,989
14 February 2011	Sharesave Scheme	214	£7.500	37,910,203
14 February 2011	Sharesave Scheme	19	£10.250	37,910,222
23 February 2011	Sharesave Scheme	669	£7.500	37,910,891
1 March 2011	Sharesave Scheme	669	£7.500	37,911,560
3 March 2011	Sharesave Scheme	281	£7.500	37,911,841
3 March 2011	Sharesave Scheme	702	£7.500	37,912,543
3 March 2011	Sharesave Scheme	281	£7.500	37,912,824
3 March 2011	Sharesave Scheme	281	£7.500	37,913,105
3 March 2011	Sharesave Scheme	62	£10.250	37,913,167
3 March 2011	Sharesave Scheme	421	£7.500	37,913,588
3 March 2011	Sharesave Scheme	351	£7.500	37,913,939
14 March 2011	Sharesave Scheme	210	£7.500	37,914,149
14 March 2011	Sharesave Scheme	562	£7.500	37,914,711
14 March 2011	Sharesave Scheme	702	£7.500	37,915,413
23 March 2011	Sharesave Scheme	421	£7.500	37,915,834
23 March 2011	Sharesave Scheme	421	£7.500	37,916,255
23 March 2011	Sharesave Scheme	87	£10.250	37,916,342
7 April 2011	Sharesave Scheme	401	£7.500	37,916,743
7 April 2011	Sharesave Scheme	36	£10.250	37,916,779
7 April 2011	Sharesave Scheme	84	£7.500	37,916,863
7 April 2011	Sharesave Scheme	147	£7.500	37,917,010
7 April 2011	Sharesave Scheme	43	£10.250	37,917,053
7 April 2011	Sharesave Scheme	210	£7.500	37,917,263
15 April 2011	Sharesave Scheme	101	£7.500	37,917,364
4 May 2011	Sharesave Scheme	294	£7.500	37,917,658
4 May 2011	Sharesave Scheme	80	£10.250	37,917,738
6 May 2011	Scrip dividend	236,586	£12.810	38,154,324
9 May 2011	Sharesave Scheme	770	£7.500	38,155,094
9 May 2011	Sharesave Scheme	154	£7.500	38,155,248
9 May 2011	Sharesave Scheme	770	£7.500	38,156,018
9 May 2011	Sharesave Scheme	61	£7.500	38,156,079
12 May 2011	Sharesave Scheme	8	£10.250	38,156,087
12 May 2011	Sharesave Scheme	97	£10.250	38,156,184
6 June 2011	Sharesave Scheme	803	£7.500	38,156,987
6 June 2011	Sharesave Scheme	321	£7.500	38,157,308
10 June 2011	Sharesave Scheme	58	£10.250	38,157,366
10 June 2011	Sharesave Scheme	321	£7.500	38,157,687
17 June 2011	Sharesave Scheme	803	£7.500	38,158,490
17 June 2011	Sharesave Scheme	321	£7.500	38,158,811

<i>Date</i>	<i>Reason for allotment</i>	<i>Shares allotted</i>	<i>Price per share</i>	<i>Total issued share capital</i>
17 June 2011	Sharesave Scheme	294	£7.500	38,159,105
17 June 2011	Sharesave Scheme	117	£10.250	38,159,222
27 June 2011	Sharesave Scheme	803	£7.500	38,160,025
7 July 2011	Sharesave Scheme	156	£10.250	38,160,181
7 July 2011	Sharesave Scheme	27	£14.000	38,160,208
7 July 2011	Sharesave Scheme	137	£14.000	38,160,345
7 July 2011	Sharesave Scheme	482	£7.500	38,160,827
15 July 2011	Sharesave Scheme	274	£14.000	38,161,101
22 July 2011	Sharesave Scheme	308	£7.500	38,161,409
22 July 2011	Sharesave Scheme	418	£7.500	38,161,827
22 July 2011	Sharesave Scheme	137	£14.000	38,161,964
5 August 2011	Sharesave Scheme	335	£7.500	38,162,299
19 August 2011	Sharesave Scheme	522	£7.500	38,162,821
8 September 2011	Sharesave Scheme	542	£7.500	38,163,363
8 September 2011	Sharesave Scheme	542	£7.500	38,163,905
8 September 2011	Sharesave Scheme	904	£7.500	38,164,809
22 September 2011	Sharesave Scheme	219	£10.250	38,165,028
22 September 2011	Sharesave Scheme	904	£7.500	38,165,932
22 September 2011	Sharesave Scheme	180	£7.500	38,166,112
22 September 2011	Sharesave Scheme	361	£7.500	38,166,473
22 September 2011	Sharesave Scheme	73	£10.250	38,166,546
30 September 2011	Sharesave Scheme	82	£14.000	38,166,628
30 September 2011	Sharesave Scheme	300	£7.500	38,166,928
30 September 2011	Sharesave Scheme	43	£10.250	38,166,971
30 September 2011	Sharesave Scheme	904	£7.500	38,167,875
17 October 2011	Sharesave Scheme	563	£7.500	38,168,438
17 October 2011	Sharesave Scheme	156	£10.250	38,168,594
17 October 2011	Sharesave Scheme	938	£7.500	38,169,532
17 October 2011	Sharesave Scheme	724	£7.500	38,170,256
17 October 2011	Sharesave Scheme	724	£7.500	38,170,980
17 October 2011	Sharesave Scheme	37	£7.500	38,171,017
17 October 2011	Sharesave Scheme	724	£7.500	38,171,741
17 October 2011	Sharesave Scheme	450	£7.500	38,172,191
17 October 2011	Sharesave Scheme	203	£10.250	38,172,394
17 October 2011	Sharesave Scheme	104	£7.500	38,172,498
7 November 2011	Sharesave Scheme	938	£7.500	38,173,436
7 November 2011	Sharesave Scheme	271	£7.500	38,173,707
7 November 2011	Sharesave Scheme	938	£7.500	38,174,645
21 November 2011	Sharesave Scheme	938	£7.500	38,175,583
21 November 2011	Sharesave Scheme	388	£7.500	38,175,971
21 November 2011	Sharesave Scheme	127	£10.250	38,176,098
21 November 2011	Sharesave Scheme	281	£10.250	38,176,379
25 November 2011	Sharesave Scheme	486	£7.500	38,176,865
25 November 2011	Sharesave Scheme	388	£7.500	38,177,253
25 November 2011	Sharesave Scheme	249	£10.250	38,177,502
30 November 2011	Scrip dividend	591,947	£12.438	38,769,449
5 December 2011	Sharesave Scheme	1,006	£7.500	38,770,455
5 December 2011	Sharesave Scheme	1,006	£7.500	38,771,461
5 December 2011	Sharesave Scheme	335	£7.500	38,771,796
5 December 2011	Sharesave Scheme	162	£7.500	38,771,958
5 December 2011	Sharesave Scheme	972	£7.500	38,772,930
5 December 2011	Sharesave Scheme	440	£10.250	38,773,370

<i>Date</i>	<i>Reason for allotment</i>	<i>Shares allotted</i>	<i>Price per share</i>	<i>Total issued share capital</i>
15 December 2011	Sharesave Scheme	136	£10.250	38,773,506
4 January 2012	Sharesave Scheme	176	£10.250	38,773,682
4 January 2012	Sharesave Scheme	78	£11.500	38,773,760
4 January 2012	Sharesave Scheme	137	£14.000	38,773,897
4 January 2012	Sharesave Scheme	137	£14.000	38,774,034
13 January 2012	Sharesave Scheme	1,039	£7.500	38,775,073
13 January 2012	Sharesave Scheme	166	£7.500	38,775,239
13 January 2012	Sharesave Scheme	17	£11.500	38,775,256
13 January 2012	Sharesave Scheme	83	£7.500	38,775,339
13 January 2012	Sharesave Scheme	1,039	£7.500	38,776,378
23 January 2012	Sharesave Scheme	278	£10.250	38,776,656
23 January 2012	Sharesave Scheme	1,039	£7.500	38,777,695
23 January 2012	Sharesave Scheme	623	£7.500	38,778,318
23 January 2012	Sharesave Scheme	124	£7.500	38,778,442
7 February 2012	Sharesave Scheme	195	£10.250	38,778,637
7 February 2012	Sharesave Scheme	429	£7.500	38,779,066
7 February 2012	Sharesave Scheme	128	£7.500	38,779,194
7 February 2012	Sharesave Scheme	1,073	£7.500	38,780,267
7 February 2012	Sharesave Scheme	536	£7.500	38,780,803
16 February 2012	Sharesave Scheme	257	£7.500	38,781,060
7 March 2012	Sharesave Scheme	102	£10.250	38,781,162
7 March 2012	Sharesave Scheme	205	£10.250	38,781,367
7 March 2012	Sharesave Scheme	39	£11.500	38,781,406
7 March 2012	Sharesave Scheme	664	£7.500	38,782,070
21 March 2012	Sharesave Scheme	442	£7.500	38,782,512
21 March 2012	Sharesave Scheme	1,107	£7.500	38,783,619
21 March 2012	Sharesave Scheme	858	£7.500	38,784,477
3 April 2012	Sharesave Scheme	155	£7.500	38,784,632
3 April 2012	Sharesave Scheme	570	£7.500	38,785,202
3 April 2012	Sharesave Scheme	215	£10.250	38,785,417
19 April 2012	Sharesave Scheme	912	£7.500	38,786,329
19 April 2012	Sharesave Scheme	43	£11.500	38,786,372
8 May 2012	Sharesave Scheme	107	£10.250	38,786,479
11 May 2012	Scrip dividend	34,090	£12.168	38,820,569
13 June 2012	Sharesave Scheme	725	£7.500	38,821,294
13 June 2012	Sharesave Scheme	469	£10.250	38,821,763
13 June 2012	Sharesave Scheme	241	£7.500	38,822,004
13 June 2012	Sharesave Scheme	469	£10.250	38,822,473
13 June 2012	Sharesave Scheme	241	£7.500	38,822,714
27 June 2012	Sharesave Scheme	145	£7.500	38,822,859
27 June 2012	Sharesave Scheme	117	£10.250	38,822,976
27 June 2012	Sharesave Scheme	208	£11.500	38,823,184
2 July 2012	Sharesave Scheme	560,250	£7.500	39,383,434
9 July 2012	Sharesave Scheme	69,103	£7.500	39,452,537
10 July 2012	Sharesave Scheme	244	£10.250	39,452,781
10 July 2012	Sharesave Scheme	244	£10.250	39,453,025
10 July 2012	Sharesave Scheme	1,220	£7.500	39,454,245
10 July 2012	Sharesave Scheme	261	£11.500	39,454,506
10 July 2012	Sharesave Scheme	282	£11.500	39,454,788
16 July 2012	Sharesave Scheme	41,488	£7.500	39,496,276
23 July 2012	Sharesave Scheme	31,564	£7.500	39,527,840
25 July 2012	Sharesave Scheme	244	£10.250	39,528,084

<i>Date</i>	<i>Reason for allotment</i>	<i>Shares allotted</i>	<i>Price per share</i>	<i>Total issued share capital</i>
31 July 2012	Sharesave Scheme	25,030	£7.500	39,553,114
8 August 2012	Sharesave Scheme	34,360	£7.500	39,587,474
20 August 2012	Sharesave Scheme	21,690	£7.500	39,609,164
3 September 2012	Sharesave Scheme	10,711	£7.500	39,619,875
3 September 2012	Sharesave Scheme	18	£11.500	39,619,893
17 September 2012	Sharesave Scheme	396	£10.250	39,620,289
17 September 2012	Sharesave Scheme	132	£10.250	39,620,421
17 September 2012	Sharesave Scheme	130	£11.500	39,620,551
17 September 2012	Sharesave Scheme	264	£10.250	39,620,815
17 September 2012	Sharesave Scheme	563	£10.250	39,621,378
17 September 2012	Sharesave Scheme	105	£10.250	39,621,483
17 September 2012	Sharesave Scheme	65	£11.500	39,621,548
17 September 2012	Sharesave Scheme	216	£10.250	39,621,764
17 September 2012	Sharesave Scheme	661	£10.250	39,622,425
17 September 2012	Sharesave Scheme	21,788	£7.500	39,644,213
15 October 2012	Sharesave Scheme	38	£10.500	39,644,251
15 October 2012	Sharesave Scheme	139	£11.500	39,644,390
15 October 2012	Sharesave Scheme	127	£10.250	39,644,517
15 October 2012	Sharesave Scheme	60	£11.500	39,644,577
15 October 2012	Sharesave Scheme	191	£10.250	39,644,768
15 October 2012	Sharesave Scheme	277	£10.250	39,645,045
15 October 2012	Sharesave Scheme	685	£10.250	39,645,730
15 October 2012	Sharesave Scheme	244	£10.250	39,645,974
15 October 2012	Sharesave Scheme	47	£10.500	39,646,021
15 October 2012	Sharesave Scheme	264	£10.250	39,646,285
15 October 2012	Sharesave Scheme	226	£11.500	39,646,511
15 October 2012	Sharesave Scheme	57	£10.500	39,646,568
15 October 2012	Sharesave Scheme	25,277	£7.500	39,671,845
29 October 2012	Sharesave Scheme	10,808	£7.500	39,682,653
29 October 2012	Sharesave Scheme	19	£10.500	39,682,672
29 October 2012	Sharesave Scheme	69	£11.500	39,682,741
29 October 2012	Sharesave Scheme	20	£10.500	39,682,761
29 October 2012	Sharesave Scheme	111	£11.500	39,682,872
29 October 2012	Sharesave Scheme	278	£11.500	39,683,150
12 November 2012	Sharesave Scheme	147	£11.500	39,683,297
12 November 2012	Sharesave Scheme	4,025	£7.500	39,687,322
26 November 2012	Sharesave Scheme	7,710	£7.500	39,695,032
26 November 2012	Sharesave Scheme	69	£11.500	39,695,101
28 November 2012	Scrip dividend	68,858	£13.150	39,763,959
10 December 2012	Sharesave Scheme	8,905	£7.500	39,772,864
10 December 2012	Sharesave Scheme	117	£10.250	39,772,981
10 December 2012	Sharesave Scheme	54	£11.500	39,773,035
10 December 2012	Sharesave Scheme	146	£10.250	39,773,181
10 December 2012	Sharesave Scheme	293	£10.250	39,773,474
21 December 2012	Sharesave Scheme	17,225	£7.500	39,790,699
2 January 2013	Sharesave Scheme	13,416	£7.500	39,804,115
7 January 2013	Sharesave Scheme	33	£10.500	39,804,148
7 January 2013	Sharesave Scheme	488	£7.500	39,804,636
21 January 2013	Sharesave Scheme	133	£10.500	39,804,769
21 January 2013	Sharesave Scheme	142	£10.500	39,804,911
4 February 2013	Sharesave Scheme	732	£7.500	39,805,643
4 February 2013	Sharesave Scheme	1,220	£7.500	39,806,863

<i>Date</i>	<i>Reason for allotment</i>	<i>Shares allotted</i>	<i>Price per share</i>	<i>Total issued share capital</i>
4 February 2013	Sharesave Scheme	39	£11.500	39,806,902
4 February 2013	Sharesave Scheme	95	£10.500	39,806,997
4 February 2013	Sharesave Scheme	133	£10.500	39,807,130
4 February 2013	Sharesave Scheme	142	£10.500	39,807,272
4 February 2013	Sharesave Scheme	172	£10.500	39,807,444
18 February 2013	Sharesave Scheme	220	£10.250	39,807,664
18 February 2013	Sharesave Scheme	156	£10.250	39,807,820
18 February 2013	Sharesave Scheme	76	£10.500	39,807,896
18 February 2013	Sharesave Scheme	87	£11.500	39,807,983
18 February 2013	Sharesave Scheme	114	£10.500	39,808,097
18 February 2013	Sharesave Scheme	31	£10.250	39,808,128
18 February 2013	Sharesave Scheme	15	£10.500	39,808,143
18 February 2013	Sharesave Scheme	17	£11.500	39,808,160
18 February 2013	Sharesave Scheme	19	£10.500	39,808,179
18 February 2013	Sharesave Scheme	69	£11.500	39,808,248
18 February 2013	Sharesave Scheme	313	£10.250	39,808,561
18 February 2013	Sharesave Scheme	114	£10.500	39,808,675
4 March 2013	Sharesave Scheme	735	£10.250	39,809,410
4 March 2013	Sharesave Scheme	166	£10.500	39,809,576
18 March 2013	Sharesave Scheme	235	£11.500	39,809,811
18 March 2013	Sharesave Scheme	244	£7.500	39,810,055
18 March 2013	Sharesave Scheme	11	£10.500	39,810,066
18 March 2013	Sharesave Scheme	48	£11.500	39,810,114
2 April 2013	Sharesave Scheme	323	£10.250	39,810,437
15 April 2013	Sharesave Scheme	238	£10.50	39,810,675

2.3 *Share capital after the Acquisition*

Subject to Admission, pursuant to the Acquisition, New Kier Shares will be issued with a nominal value of 1 pence per New Kier Share. This will result in the issued ordinary share capital of the Company increasing by approximately 37 per cent. (assuming that: (i) 14,714,445 Kier Shares are issued pursuant to the Acquisition; and (ii) no May Gurney Shares or other Kier Shares are issued between 13 May 2013 and the Effective Date).

2.4 *Existing shareholder authorities*

At the annual general meeting of the Company on 15 November 2012, the following resolutions were passed:

- (i) THAT, in substitution for all subsisting authorities, the Kier Directors be and are generally and unconditionally authorised to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for, or to convert any security into, shares in the Company (“Rights”) up to an aggregate nominal amount of £132,147; and
- (ii) THAT the Kier Directors be and are generally and unconditionally authorised to allot equity securities (within the meaning of section 560(1) of the Companies Act) in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them up to an aggregate nominal amount of £264,295 after deducting from such limit any shares allotted under paragraph (i) above,

provided that these authorities shall expire on the date of the next annual general meeting of the Company (unless renewed, varied or revoked by the Company prior to or on the date), save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or Rights to be granted and the Kier Directors may allot relevant securities and grant

Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this authority has expired; and

(iii) THAT, pursuant to and in accordance with section 570 of the Companies Act, the Kier Directors be and are generally empowered to allot equity securities (as defined in section 560(1) of the Companies Act) wholly for cash pursuant to the authorities conferred above, as if section 561(1) of the Companies Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- (a) in connection with an offer of such securities by way of a rights issue open offer or other pre-emptive offer to holders of ordinary shares in proportion (as nearly may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Kier Directors may deem necessary or expedient in relation to the fractional entitlements of any legal or practical issues under the laws of any territory or the requirements of any regulatory body; and
- (b) otherwise than pursuant to paragraph (a) above, up to an aggregate nominal amount of £19,822,

provided that this authority shall expire on the date of the next annual general meeting of the Company (unless renewed, varied or revoked by the Company prior to or on that date), save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Kier Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the authority conferred by this authority has expired.

2.5 *Acquisition shareholder authorities*

The following resolutions are set out in the Notice of General Meeting that is to be found at the end of this document and it is proposed that these resolutions will be voted on at the Kier General Meeting on 14 June 2013 for the purpose of implementing the Acquisition THAT:

- the Acquisition be approved and the Kier Directors be authorised to implement the Acquisition;
- the Kier Directors be authorised to allot the New Kier Shares in connection with the Acquisition up to an aggregate nominal amount of £147,144.45; and
- the Company and its subsidiaries be permitted to incur net borrowings of an amount not exceeding the greater of (i) three times adjusted capital and reserves and (ii) £550 million.

3 **Kier Articles**

The Kier Articles are available for inspection at Linklaters LLP, One Silk Street, London EC2Y 8HQ. Kier's Memorandum of Association no longer sets out the objects of Kier. Accordingly, pursuant to Section 31 of the Companies Act, Kier's objects are unrestricted except to the extent otherwise provided in the Kier Articles.

The Kier Articles have been adopted with effect from 12 November 2010 and contain provisions, *inter alia*, to the following effect:

3.1 *Share rights*

Subject to any rights attached to existing shares, Kier may issue shares by ordinary resolution with such rights and restrictions as Kier may determine or, if Kier has not so determined, as the Kier Directors determine. Kier may also issue shares that are redeemable at the option of Kier or a member on such terms and in such manner as may be provided by the Kier Board.

3.2 ***Voting rights***

Subject to any (i) terms attached to any shares issued or (ii) terms in the Kier Articles:

(A) On a show of hands:

- (i) every member present will have one vote;
- (ii) every duly authorised representative of a member present will have one vote. In the case of a member who is present by more than one duly authorised representative, each representative will have one vote; and
- (iii) a duly appointed proxy will have one vote unless the proxy has been appointed by more than one member entitled to vote and:
 - (1) the proxy has been instructed to vote for the resolution by one or more members and wishes to vote against the resolution pursuant to an instruction or discretionary authority given by another member; or
 - (2) the proxy has been instructed to vote against the resolution by one or more members and wishes to vote for the resolution pursuant to an instruction or discretionary authority given by another member,

in which case the proxy will have one vote for and one vote against the resolution.

(B) On a poll:

- (i) every member present will have one vote for each share held by him;
- (ii) every member present by a duly authorised representative, not being himself a member entitled to vote, will have one vote for each share of which the member is the holder. In the case of a member who is represented by more than one duly authorised representative, if more than one representative purports to vote in respect of the same shares, then:
 - (1) if the purported votes are cast in the same way, the member will be treated as voting in that way;
 - (2) if the purported votes are not cast in the same way, the votes will be treated as abstained;
- (iii) a member entitled to more than one vote need not, if he votes, use all votes or cast all votes in the same way; and
- (iv) all or any of the voting rights of a member may be exercised by one or more duly appointed proxies.

In the case of joint holders, only the senior who tenders a vote will be accepted, where seniority is determined by the order in which the names stand on the register in respect of the holding.

3.3 ***Restrictions***

No member will be entitled to vote, unless the Kier Board determines otherwise, at any general meeting in respect of any share held by him if: (i) any call or other sum then payable by him in respect of that share remains unpaid; or (ii) a member has been served with a restriction notice after that member failed to provide Kier with information concerning interests in those shares required to be provided under applicable law.

3.4 ***Dividends and other distributions***

Subject to applicable law, Kier may by ordinary resolution declare dividends not exceeding the amount recommended by the Kier Board.

All dividends will be declared and paid according to the amounts paid on the shares and paid proportionately to the amounts paid over the period in respect of which the dividend is paid.

Any general meeting declaring a dividend may, upon recommendation of the Kier Board, direct payment or satisfaction of such dividend by the distribution of specific assets.

The Kier Board may pay an interim dividend or fixed dividend whenever the profits and position of Kier, in the opinion of the Kier Board, justifies its payment. If the Kier Board acts in good faith, it is not liable for any losses Kier Shareholders may suffer because of the lawful payment of an interim dividend on any shares having deferred or non-preferential rights.

The Kier Board may deduct from any dividend all sums of money (if any) payable to Kier on account of calls or otherwise in respect of that share.

No dividend or other monies payable on or in respect of a share will bear interest against Kier. Any dividend unclaimed from the date when it was declared may be invested or otherwise made use of by the Kier Board for the benefit of the company until it is claimed. All dividends unclaimed after a period of 12 years from the date when it was declared will be forfeited and revert to Kier.

The Kier Directors may, if authorised by ordinary resolution, offer the holders of ordinary shares the right to elect to receive additional ordinary shares, credited as fully paid, instead of cash in respect of any dividend or any part of any dividend.

3.5 *Variation of rights*

Subject to applicable law, Kier can vary or abrogate the rights attached to any class of shares with either the written consent of the holders of at least three quarters of the issued shares of that class (excluding any shares of that class held as treasury shares) or by a special resolution passed at a separate meeting of the holders of that class. This applies whether or not Kier is being wound up.

Subject to the terms on which any shares may be issued, the rights and privileges attached to any class of shares will be deemed not to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* with those already issued.

3.6 *General meetings*

No business other than appointment of a chairman will be transacted at any general meeting unless a quorum is present.

At any general meeting, a resolution put to the vote of the meeting will be decided on a show of hands unless a poll is duly demanded.

3.7 *Kier Directors*

(A) Number of Kier Directors

Unless and until otherwise determined by ordinary resolution, the Kier Directors will be not less than three and not more than 12 in number.

(B) Kier Directors' shareholding qualification

A Kier Director is not required to hold any shares in Kier.

(C) Appointment of Kier Directors

Kier Directors may be appointed by ordinary resolution or by the Kier Board if the total number of Kier Directors will not exceed the maximum number. A Kier Director appointed by the Kier Board may only hold office until the next annual general meeting of Kier and is then eligible for re-election by Kier Shareholders.

(D) Retirement and rotation of Kier Directors

At each annual general meeting, one-third of the Kier Directors who are subject to retirement by rotation will retire from office. The Kier Directors subject to retirement by rotation will be those who have been longest in office since their last election.

A retiring Kier Director will be eligible for re-election.

(E) Resignation and removal of Kier Directors

A Kier Director may resign his office by written notice.

Kier may remove any Kier Director before the expiration of his period of office by ordinary resolution where special notice is given in accordance with section 312 of the Companies Act.

(F) Disqualification of Kier Directors

The office of a Kier Director will be vacated if:

- (i) the Kier Director becomes bankrupt or the subject of an interim receiving order or makes any arrangement or composition with his creditors or applies to the court for an interim order under section 253 of the Insolvency Act 1986 in connection with a voluntary arrangement;
- (ii) a registered medical practitioner gives a written opinion stating that the Kier Director has become physically or mentally incapable of acting as a Kier Director and may remain so for more than three months;
- (iii) the Kier Director ceases to be a director by virtue of any provision of the Statutes or becomes prohibited by law from being a director;
- (iv) the Kier Director receives written notice signed by not less than three quarters of the other Kier Directors removing him from office;
- (v) in the case of a Kier Director who holds any executive office, the Kier Director ceases to hold such office and the majority of the other Kier Directors resolve that his office be vacated; and
- (vi) a resolution of the Kier Board declaring a Kier Director to have vacated office under the terms of the Kier Articles will be conclusive as to the fact and grounds of vacation stated in the resolution.

(G) Proceedings of the Kier Board

The Kier Board may meet together for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit. The Kier Board may fix the quorum necessary for the transaction of the business of the Kier Board which, unless so fixed at any other number, will be two. Any Kier Director can call a meeting of the Kier Board.

The Kier Board may appoint any Kier Director as chairman or as deputy chairman and determine the period for which they hold office. If no chairman or deputy chairman has been appointed, or is present within five minutes after the time appointed for holding the meeting, the Kier Directors present may choose one of their number to act as chairman of the meeting.

A majority of votes will determine questions arising at any meeting of the Kier Board. In the case of an equality of votes, the chairman of the meeting will have a second or casting vote.

Any Kier Director may validly participate in a meeting of the Kier Board or committee by means of a conference telephone or any communication equipment which allows all persons participating in the meeting to hear and speak to each other. A person so participating will be deemed present at the meeting and will be entitled to vote and to be counted in the quorum.

A resolution in writing signed by all Kier Directors entitled to receive notice of a meeting of the Kier Board will be valid and effectual as a resolution passed at a meeting.

(H) Delegation of the powers of the Kier Board

The Kier Board may make arrangements for the management and transaction of Kier's affairs and may for that purpose appoint local boards, managers, inspectors and agents and delegate to them any of the powers, authorities and discretions vested in the Kier Board (other than the power to borrow and make calls) with power to sub-delegate. Any such appointment or delegation may be made on such terms and conditions as the Kier Board thinks fit.

The Kier Board may appoint a power of attorney.

The Kier Board may delegate any of its powers to any committee consisting of one or more Kier Directors. The Kier Articles regulating the proceedings of the Kier Board shall govern the proceedings of a committee with two or more members. If the Kier Board determines to co-opt persons other than Kier Directors on to a committee, the number of such persons shall be less than one half of the total number of members and no resolution of the committee shall be effective unless a majority of the members of the committee present at the meeting concerned are Kier Directors.

(I) Remuneration of Kier Directors

The aggregate amount of fees payable by Kier to the Kier Directors in any financial year will not exceed £400,000, unless determined otherwise by ordinary resolution.

The Kier Directors will be entitled to be repaid all expenses travelling to and from Kier Board meetings, committee meetings, general meetings or otherwise incurred while engaged in the business of the Company. Any Kier Director, who by request of the Kier Board performs special services, may be paid extra remuneration as the Kier Board may decide.

(J) Interests of Kier Directors

The Kier Board may authorise any matter which would involve a Kier Director breaching his duty under the Statutes to avoid conflicts of interests. The Kier Director seeking authorisation will declare the nature and extent of his interest as soon as is reasonably practicable, and provide details of the relevant matter.

Any Kier Director (including the relevant Kier Director) may propose the relevant Kier Director be authorised, but the relevant Kier Director's vote will not count on any resolution giving authority and they will be excluded from any Kier Board meeting while the conflict is under consideration. Where the board gives authority:

- (i) the Kier Board may impose terms on the authority;
- (ii) the relevant Kier Director will be obliged to conduct himself in accordance with any terms imposed by the Board in relation to the conflict;
- (iii) the Kier Board may provide that where the relevant Kier Director obtains (otherwise than through his position) information that is confidential to a third party, the relevant Kier Director will not be obliged to disclose that information to Kier, or to use or apply the information to Kier's affairs, where to do so would amount to a breach of confidence;
- (iv) the terms of the authority will be recorded in writing; and
- (v) the Kier Board may revoke or vary such authority, but this will not affect anything done by the relevant Kier Director prior to such revocation.

Provided the Kier Director has disclosed the nature and extent of any interest, the Kier Director:

- (i) may be a party to or otherwise directly or indirectly interested in any transaction or arrangement with Kier or in which Kier is interested;
- (ii) may be or become a member or director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by Kier or in which Kier is otherwise interested;
- (iii) may hold any other office or place of profit with Kier (except that of auditor) in conjunction with his office of Kier Director;
- (iv) may be or become a director of any other company in which Kier does not have an interest which cannot be reasonably regarded as giving rise to a conflict of interest at the time of this appointment as director of that other company;
- (v) will not be accountable to Kier for any benefit which he derives from any such office or employment or from any such transaction or arrangement authorised or permitted, and no such transaction or arrangement authorised or permitted will be liable to be avoided on the ground of any such interest or benefit; and
- (vi) may act by himself or his firm in a professional capacity for Kier and, if acting for Kier, the Kier Director will be entitled to remuneration for professional services as if he were not a Kier Director.

(K) Restrictions on voting

A Kier Director will not vote on or be counted in the quorum in relation to any Kier Board resolution concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment as the holder of any office or place of profit with Kier.

A Kier Director will not vote on or be counted in the quorum in relation to any Kier Board resolution concerning any contract in which the Kier Director has an interest. This prohibition will not apply to any resolution where that interest is not likely to give rise to a conflict or where that interest arises only from one or more of the following matters:

- (i) the giving to him of a guarantee, security or indemnity in respect of money lent to, or an obligation incurred by, the Kier Director at the request of, or for the benefit of, Kier or its subsidiaries;
- (ii) the giving to a third party of a guarantee, security or indemnity in respect of an obligation of Kier or any of its subsidiaries for which the Kier Director has assumed responsibility under a guarantee or indemnity or by the giving of security;
- (iii) the giving of any other indemnity where all other Kier Directors are also being offered indemnities on substantially the same terms;
- (iv) the interest arises by virtue of being, or intending to become, a participant in the underwriting or sub-underwriting of any offer of any shares, debentures or any other securities by Kier or any of its subsidiaries;
- (v) any contract concerning any other company in which the Kier Director is interested, provided that he does not hold or is not beneficially interested in one per cent. or more of any class of the equity share capital of that company or the voting rights available to members of that company;
- (vi) any contract concerning insurance which Kier is empowered to purchase for the benefit of any Kier Directors;

- (vii) the funding by Kier of the expenditure of any Kier Director defending proceedings where all Kier Directors are being offered substantially the same arrangements;
- (viii) any contract in which the Kier Director is interested by virtue of his interest in shares, debentures or other securities of Kier; and
- (ix) any contract concerning a pension fund, superannuation or similar scheme, or retirement, death or disability benefits scheme, or employees' share scheme which relates to both the Kier Directors and Kier employees and does not provide any extra advantage to the Kier Directors.

(L) Borrowing powers

The Kier Board may exercise all the powers of Kier to borrow money and to mortgage or charge its undertaking, property, assets and uncalled capital. The Kier Board may issue debentures and other securities, whether outright or as collateral security of any debt, liability or obligation of Kier or any other third party. The aggregate amount of the net borrowings of Kier or its subsidiaries will not, without the previous sanction of an ordinary resolution, exceed an amount equal to three times the adjusted capital and reserves.

(M) Untraced shareholders

Kier can sell any certificated shares at the best price reasonably obtainable at the time of the sale if:

- (i) three dividends have been payable and are unclaimed during the 12 years before the notice mentioned in (b);
- (ii) on or after the 12 year period, Kier has published a notice stating that it intends to sell the shares, and it is published both in a national newspaper and in a newspaper circulating in the area of the last known address of the member;
- (iii) the notices, if not published on the same day, are published within 30 days of each other;
- (iv) the company has not received any indication of the whereabouts or existence of such member; and
- (v) if the shares are listed on the London Stock Exchange, Kier has given notice to the London Stock Exchange of its intention to make such sale.

The net proceeds of the sale will belong to Kier which will be obliged to account to the former member for an amount equal to such proceeds. In respect of the debt, no trust is created, no interest is payable and there is no duty to account for any money earned on it.

4 Litigation

4.1 Kier

Save as described below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Kier is aware) during the period covering the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the financial position or profitability of the Kier Group.

On 5 November 2012 and 26 March 2013 (as amended pursuant to a further letter dated 28 March 2013), Kier Limited received letters from solicitors acting on behalf of SRM, the effect of which was to notify Kier Limited that SRM was the defendant in High Court proceedings relating to an alleged unlawful conspiracy with other construction companies in connection with the use of a database which was maintained by The Consulting Association. In the letters, SRM notified Kier Limited of its intention to defend these proceedings but that, if this defence was not successful, Kier Limited, together with other subscribers to and/or users of the database, would be liable to make a contribution

to any damages payable by SRM to the claimants. Similar letters were also sent to Kier Engineering Services Limited.

To date, Kier has not received any formal claim for a contribution in respect of such matters. It is not currently possible for Kier to quantify the likely effect, financial or otherwise, on the Kier Group should such a valid claim be received. However, it is possible that, if the action against SRM is successful, other participants in the construction sector, including members of the Kier Group, will be liable to make a contribution in relation to any damages which would be payable by SRM.

4.2 *May Gurney*

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the May Gurney Group is aware) during the period covering the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the financial position or profitability of the May Gurney Group.

5 **Kier material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Kier Group: (a) in the two years immediately preceding the date of this document and are, or may be, material to the Kier Group as at the date of this document; or (b) at any time which contain provisions under which any member of the Kier Group has any obligation or entitlement which is material to the Kier Group as at the date of this document:

5.1 *Revolving credit facility*

On 31 May 2012, the Company entered into a revolving credit facility agreement with HSBC Bank PLC as agent and HSBC Bank PLC, Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Santander UK PLC as lenders (the "RCF").

Under the terms of the RCF, the lenders have provided the Company with a revolving credit facility of £120 million to be used for general corporate purposes. The RCF is required to be repaid on the last day of the interest period relating to the relevant advance but, subject to certain conditions, can be immediately re-drawn. No sums can be drawn under the RCF on or after one month prior to 30 September 2016 (the "RCF Termination Date"). All amounts outstanding under the RCF are required to be repaid on the RCF Termination Date.

The RCF contains standard investment grade loan market association representations, undertakings and events of default, as well as financial covenants relating to consolidated tangible net worth, interest cover and leverage. As at 31 December 2012, being the most recent covenant test date under the RCF, the Company was in compliance with these covenants and the other terms of the RCF.

The RCF is unsecured and is guaranteed by certain subsidiaries of the Company. The RCF includes provisions allowing certain wholly owned subsidiaries of the Company to accede to the RCF as additional borrowers and/or additional guarantors.

An amendment agreement in relation to the RCF was entered into on 22 April 2013 in order to permit the Acquisition for the purposes of the RCF and to make certain other amendments to the terms of the RCF which are required or otherwise considered desirable in relation to the operation of the Kier Group following the implementation of the Acquisition.

5.2 *Term loan facility*

On 11 January 2013, the Company entered into a term loan facility agreement with Lloyds TSB Bank plc as agent and lender (the "Term Loan Agreement").

Under the terms of the Term Loan Agreement, Lloyds TSB Bank plc agreed to provide the Company with a term loan facility of £30 million to be used for general corporate purposes. The aggregate loans outstanding under the Term Loan Agreement are required to be repaid on the fourth anniversary of the

date of the Term Loan Agreement, with no sums being able to be drawn after 31 December 2013. The Term Loan Agreement permits, subject to payment of any applicable break costs, voluntary prepayments and voluntary cancellation of undrawn amounts.

The Term Loan Agreement contains, on terms which are substantially consistent with the RCF, standard investment grade loan market association representations, undertakings and events of default. The financial covenants which the Company must observe under the Term Loan Agreement are substantially the same as those which apply in the RCF.

As at 31 December 2012, being the most recent covenant test date under the Term Loan Agreement, the Company was in compliance with the above covenants and the other terms of the Term Loan Agreement.

The Term Loan Agreement is unsecured and is guaranteed by certain subsidiaries of the Company. The Term Loan Agreement includes provisions allowing certain wholly owned subsidiaries of the Company to accede to the Term Loan Agreement as additional borrowers and/or additional guarantors.

An amendment agreement in relation to the Term Loan Agreement was entered into on 22 April 2013 in order to permit the Acquisition for the purposes of the Term Loan Agreement and to make certain other amendments to the terms of the Term Loan Agreement which are required or otherwise considered desirable in relation to the operation of the Kier Group following the implementation of the Acquisition.

5.3 *Share purchase agreements*

On 13 April 2011, the Company (as guarantor), together with its subsidiary, Kier Property, entered into a share purchase agreement with Bank of Scotland plc (“BoS”), pursuant to which BoS sold its share in Kier Developments to Kier Property (the “BoS SPA”). On the same date, Kier Property and Kier Developments entered into a share purchase agreement with Uberior, pursuant to which Uberior sold its shares in Kier Developments to Kier Property (the “Uberior SPA” and, together with the BoS SPA, the “SPAs”). Both BoS and Uberior are members of Lloyds Banking Group. Completion of the transactions contemplated by the SPAs also took place on 13 April 2011.

The combined effect of the SPAs was to enable Kier Property to acquire Lloyds Banking Group’s 50 per cent. interest in a portfolio of real estate assets, which was owned by Kier Developments and its subsidiaries. Prior to the transaction, Kier Property owned 50 per cent. of the share capital of Kier Developments and, as a result of the transaction, Kier Property became the owner of the entire issued share capital of Kier Developments.

The aggregate consideration for the transaction was £91 million, of which £35 million was paid in cash on completion, £30 million was paid in cash in October 2012 and £26 million will be paid in cash in October 2013. The consideration, which was based on an independent valuation of the assets, also released Kier Developments and its subsidiaries from all debt payable to Lloyds Banking Group.

The BoS SPA contains representations, undertakings, events of default and financial covenants which are substantially similar to those contained in the RCF and the Term Loan Agreement. As at 31 December 2012, being the most recent covenant test date under the BoS SPA, the Company was in compliance with these financial covenants. Kier Property has granted security in favour of Lloyds TSB Bank plc over land to the value of £8 million but, in all other respects, the Company’s and Kier Property’s obligations under the BoS SPA are unsecured.

An amendment and waiver agreement in relation to the BoS SPA was entered into on 22 April 2013 in order to permit the Acquisition for the purposes of the BoS SPA and to make certain other amendments to the terms of the BoS SPA which are required or otherwise considered desirable in relation to the operation of the Kier Group following the implementation of the Acquisition.

The Uberior SPA was entered into in order to facilitate the overall transaction and does not contain any provisions under which any member of the Kier Group has an obligation which is material to the Kier Group as at the date of this document.

5.4 *Note purchase agreement*

The Company is party to a note purchase agreement with certain noteholders (the “Noteholders”) dated 20 December 2012 (the “Note Purchase Agreement”) pursuant to which the Company issued (i) £25 million of 4.24 per cent. senior notes maturing on 20 December 2019; (ii) £20 million of 4.84 per cent. senior notes maturing on 20 December 2022; (iii) US\$8 million of 4.26 per cent. senior notes maturing on 20 December 2019 and US\$20 million of 4.83 per cent. senior notes maturing on 20 December 2022 (collectively, the “Notes”).

The Note Purchase Agreement includes a requirement for the Company to comply with certain financial covenants and includes customary affirmative and negative covenants for US private placement instruments. The financial covenants in the Note Purchase Agreement are substantially similar to those contained in the RCF, the Term Loan Agreement and the SPA.

The negative covenants imposed on the Kier Group by the Note Purchase Agreement include, subject to certain exceptions, a restriction on granting security, a restriction on incurring financial indebtedness by members of the Kier Group which do not also guarantee the Notes and a restriction on the disposal of assets.

As at 31 December 2012, being the most recent covenant test date under the Note Purchase Agreement, the Company was in compliance with the above covenants and the other terms of the Note Purchase Agreement.

The obligations under the Notes are unsecured and certain of the Company’s subsidiaries, which have also guaranteed the RCF and the Term Loan Agreement, have also guaranteed the Company’s obligations under the Notes by separate guarantee agreements.

The terms of the Notes do not require specific Noteholder consent for the Acquisition to proceed but, in connection with the operation of the Kier Group after the Acquisition, an amendment in relation to certain of the financial covenants contained in the Notes was entered into on 22 April 2013. The effectiveness of this amendment is conditional upon the Scheme becoming Effective.

5.5 *Joint venture with Network Rail*

Kier Property and Network Rail Infrastructure Limited (“NRIL”) established a 50/50 joint venture, Solum Regeneration (Epsom) Limited Partnership (“Solum”), in June 2008 to redevelop railway station sites, creating commercial and residential led mixed-use developments.

The Company and NRIL provided a guarantee of the obligations of Solum as the borrower under a £25 million single currency revolving facilities agreement entered into with, amongst others, The Royal Bank of Scotland plc (“RBS”) (acting as agent for National Westminster Bank Plc), as the original lender and arranger, and RBS, as the agent, dated 5 October 2010, as amended and restated by an amendment and restatement agreement dated 27 October 2011 (the “Facilities Agreement”).

Under the terms of the Facilities Agreement, RBS has provided Solum with a revolving loan facility in an aggregate amount of £15 million towards meeting costs incurred in relation to the construction and development of the property situated at Epsom Railway Station, Station Approach, Epsom KT19 8EW and a revolving loan facility in an aggregate amount of £10 million towards meeting costs incurred in relation to the construction and development of the property situated at Walthamstow Central Station, Selborne Road, London E17 7LP.

Each loan advanced under the Facilities Agreement is required to be repaid on the last day of the interest period relating to the relevant advance, but, subject to certain conditions, can be immediately re-drawn. No sums can be drawn under the Facilities Agreement on or after one month prior to 1 January 2014 (the “Termination Date”). All amounts outstanding under the Facilities Agreement are

required to be repaid on the Termination Date. The Facilities Agreement contains representations, undertakings and events of default as well as certain financial covenants which the Company and Solum must observe, which are customary for an agreement of its nature.

The guarantee granted by the Company and NRIL is in respect of all obligations of Solum under the Facilities Agreement during the period commencing on the date of the Facilities Agreement and terminating on the earlier of: (i) the date upon which all moneys payable or to become payable to the finance parties under the Facilities Agreement have been paid in full; and (ii) in relation to each of the Company and NRIL, the date upon which it has made payments in an amount at least equal to its maximum aggregate liability under the guarantee.

The Company's maximum aggregate liability under the guarantee is £12,500,000 with respect to principal and 50 per cent. of any interest, fees, expenses or any other amount outstanding at the relevant time (subject to a cap of £4 million). For each amount recoverable by a finance party under the guarantee, that finance party may only recover from the Company 50 per cent. of such amount and from NRIL the other 50 per cent.

5.6 *Acquisition Facility Agreement*

On 22 April 2013, the Company entered into a term and revolving credit facility agreement (the "Acquisition Facility Agreement") with HSBC Bank plc as agent and HSBC Bank PLC, Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Santander UK PLC as lead arrangers and original lenders.

Under the terms of the Acquisition Facility Agreement, the original lenders have provided the Company with (i) a £50 million term loan facility ("Facility A") and (ii) a £70 million revolving credit facility ("Facility B"). Facility A is available to be used to fund (i) the cash consideration payable to May Gurney Shareholders in relation to the Acquisition and (ii) the costs and expenses incurred by the Kier Group in connection with the Acquisition. Facility B is available to be used for general corporate purposes, including to refinance the working capital facilities of May Gurney.

Facility A is available to be drawn down until, subject to certain conditions, 14 days after the Scheme becomes Effective and during this period is subject to standard certain funds provisions which restrict the rights of the lenders under Facility A to draw stop Facility A utilisations. Facility A is required to be repaid on 30 September 2016 (the "Acquisition Facility Termination Date").

Facility B is required to be repaid on the last day of the interest period relating to the relevant advance but, subject to certain conditions, can be immediately re-drawn. No sums can be drawn under Facility B on or after one month prior to the Acquisition Facility Termination Date. All amounts outstanding under Facility B are required to be repaid in full on the Acquisition Facility Termination Date.

The Acquisition Facility Agreement permits, subject to the payment of any applicable break costs, voluntary prepayments and voluntary cancellation of undrawn amounts under Facility A and Facility B.

Interest accrues on loans made under Facility A at a floating rate of LIBOR for the applicable interest period plus a margin of between 1.9 per cent. and 3 per cent. and on loans made under Facility B at a floating rate of LIBOR for the applicable interest period plus a margin of between 1.7 per cent. and 2.8 per cent. Within the ranges stated, the prevailing margin on both Facility A loans and Facility B loans is determined from time to time in accordance with a leverage "ratchet".

The Acquisition Facility Agreement contains standard investment grade loan market association representations, undertakings and events of default as well as certain financial covenants which the Company must observe. The financial covenants in the Acquisition Facility Agreement require the Company to ensure that (i) the Kier Group's consolidated tangible net worth is not less than £80 million up to and including 30 June 2014 and not less than £100 million plus 50 per cent. of retained profits of the Kier Group for each financial year after 30 June 2014; (ii) the Kier Group's interest coverage ratio is not less than 4 to 1 and (iii) the Group's leverage ratio does not exceed 2.75 to 1.

In addition, the Acquisition Facility Agreement contains standard undertakings relating to the Kier Group's conduct of the Acquisition.

The Acquisition Facility Agreement is unsecured and is guaranteed by certain subsidiaries of the Company. The Acquisition Facility Agreement includes provisions allowing certain wholly owned subsidiaries of the Company to accede to the Acquisition Facility Agreement as additional borrowers and/or additional guarantors.

5.7 *Investment in Biogen (UK) Limited*

KPIL, Kier Limited and the Company each entered into a shareholders agreement dated 2 August 2012 with, *inter alios*, Bedfordia Group plc, Biogen Holdings Limited ("Biogen Holdings") and Biogen (UK) Limited ("Biogen"), pursuant to which KPIL agreed to invest up to a maximum of £24.375 million in Biogen Holdings for up to 50 per cent. of the issued share capital of Biogen Holdings (the "Shareholders' Agreement"). Pursuant to the Shareholders Agreement, Biogen Holdings agreed to use those funds to develop the business of the Biogen Holdings group of companies and, in particular, the design, building and operation of large-scale anaerobic digestion plants to process food waste and produce renewable energy.

The Kier Group's maximum total investment is £24.375 million (comprising a mixture of preferred and ordinary equity), of which £5.375 million was invested on completion. A further £2.5 million of equity was invested in December 2012 and another £2.5 million will be invested in July 2013. The remaining £14 million is scheduled to be invested in instalments over the period ending 15 July 2016 to finance new anaerobic digestion plants.

Kier Limited is a party to the Shareholders' Agreement so as to guarantee the obligations of KPIL thereunder. The Company is a party to the Shareholders' Agreement, *inter alia*, to provide or procure a replacement guarantee of KPIL's obligations in the event that Kier Limited's net asset value decreases to below a level set out in the agreement. The Shareholders' Agreement also contains provisions relating to, *inter alia*, the resolution of deadlocked matters and share transfers.

The Company also provided a guarantee of the obligations of Biogen and Biogen Holdings under a £12 million single currency revolving facility agreement entered into by such entities with The Royal Bank of Scotland plc ("RBS") dated 2 August 2012 as amended by an amendment agreement dated 12 March 2013 (the "Facility Agreement"). Each loan advanced under the Facility Agreement is required to be repaid on the last day of the interest period relating to the relevant advance, but, subject to certain conditions, can be immediately re-drawn. No sums can be drawn under the Facility Agreement on or after three months prior to 15 July 2016 (the "Termination Date"). All amounts outstanding under the Facility Agreement are required to be repaid on the Termination Date must have been repaid by 15 July 2016. The Facility Agreement contains representations and warranties and non-financial covenants (including as to the provision of certain information to RBS) from, and events of default relating to, Biogen and Biogen Holdings which are customary for an agreement of its nature. The guarantee granted by the Company is in respect of all obligations of Biogen and Biogen Holdings under the Facility Agreement.

5.8 *Sale of plant business*

In August 2012, following a strategic review of its plant business, Kier completed the sale of its:

- temporary accommodation business and related real estate assets to Wernick Hire Limited ("Wernick") for a maximum aggregate consideration of £11,725,000, of which £11,250,000 was paid in cash on completion; and
- mechanical plant and small tools unit to Ashtead Plant Hire Company Limited ("Ashtead"), for a maximum aggregate consideration of £4,013,000, of which £3,763,000 was paid in cash on completion.

In each case, the balance of the consideration was retained pending an inspection of certain of the assets following completion.

As part of the sale, Kier entered into trading agreements with each of Wernick and Ashtead to ensure continued availability of these assets for Kier's businesses. Kier retained certain of its other plant, together with its fleet management business, for use by the Kier Group's operations.

5.9 *Joint Sponsors' Agreement*

On 14 May 2013, an agreement was entered into between Kier and the Joint Sponsors, whereby the Joint Sponsors agreed to act as sponsors to Kier in connection with the applications for Admission and the publication of the this document. Pursuant to this agreement, Kier has agreed to provide the Joint Sponsors with certain indemnities, undertakings and warranties in connection with their role as Kier's sponsors. The indemnities provided by Kier indemnify the Joint Sponsors against claims made against them or losses suffered or incurred in connection with their role as sponsors, subject to certain exceptions. Kier also warrants the accuracy of certain information relied upon in connection with the issue of documents to Kier Shareholders and/or May Gurney Shareholders.

5.10 *Irrevocable undertakings*

Kier has received irrevocable undertakings to vote, or procure the vote, in favour of the Acquisition at the Court Meeting and the Special Resolution to be proposed at the May Gurney General Meeting from David and Wendy Sterry (acting as trustees of various trusts), Artemis Investment Management LLP, Aviva Investors Global Services Limited (in its capacity as investment manager for certain clients) and May Gurney Group Trustees Limited (acting as trustee of the May Gurney Group Limited Employee Share Ownership Trust) in respect of a total of 17,031,884 May Gurney Shares, representing, in aggregate, approximately 24.25 per cent. of May Gurney's issued share capital as at the date of this document.

The irrevocable undertaking given by Aviva Investors Global Services Limited stipulates that it will cease to be binding:

- (i) if the Acquisition Announcement is not released by 12.00 noon on 31 May 2013;
- (ii) if the Scheme Document is not posted within 28 days of the date of the Acquisition Announcement;
- (iii) if the Scheme lapses or is withdrawn;
- (iv) on the expiry of 14 days from the date on which the Scheme becomes Effective or such longer period, up to a maximum of two months, specified in the Scheme Document, over which the Scheme remains open for approval;
- (v) if Aviva Investors Global Services Limited is required to withdraw the undertaking by any court or competent regulator;
- (vi) if there is a material change in the information relating to the Scheme upon which the decision to provide the undertaking is based and Aviva Investors Global Services Limited deems it so necessary to revoke the undertaking as a result thereof; or
- (vii) if an announcement is made in accordance with Rule 2.7 of the City Code of a competing offer (whether made by way of an offer or a scheme or arrangement) in respect of May Gurney Shares under which the amount or value of the consideration offered for each May Gurney Share is in the reasonable opinion of Aviva Investors Global Services Limited not less than 10 per cent. greater than the value per May Gurney Share offered pursuant to the Scheme and Kier has not, within seven days of such announcement, revised the terms of the Scheme to exceed the amount or value of the consideration represented by such competing offer.

The irrevocable undertaking given by David and Wendy Sterry (acting as trustees of various trusts) stipulates that it will cease to be binding if:

- (i) the Scheme has not become Effective by 31 July 2013; or
- (ii) (a) an announcement is made in accordance with Rule 2.7 of the City Code of a competing offer (whether made by way of an offer or a scheme or arrangement) in respect of May Gurney Shares and such competing offer represents a value at the date and time in London of such announcement of not less than 110 per cent. of the value of the Scheme as at 5.00 p.m. (London time) on the last dealing day prior to the date of such announcement; and
 - (b) at any time following such announcement, David and Wendy Sterry notify Kier in writing that they no longer intend to vote in favour of the Scheme.

The irrevocable undertaking given by Artemis Investment Management LLP stipulates that it will cease to be binding if:

- (i) the Scheme has not become Effective by 31 July 2013; or
- (ii) (a) an announcement is made in accordance with Rule 2.7 of the City Code of a competing offer (whether made by way of an offer or a scheme or arrangement) in respect of May Gurney Shares and such competing offer represents a value at the date and time in London of such announcement of not less than 110 per cent. of the value of the Scheme as at 5.00 p.m. (London time) on the last dealing day prior to the date of such announcement; and
 - (b) by any time following such announcement Artemis Investment Management LLP notifies Kier in writing that it no longer intends to vote in favour of the Scheme.

The irrevocable undertaking given by May Gurney Group Trustees Limited (acting as trustee of the May Gurney Group Limited Employee Share Ownership Trust) stipulates that it will cease to be binding if:

- (i) an announcement is made in accordance with Rule 2.7 of the City Code of a competing offer (whether made by way of an offer or a scheme or arrangement) in respect of May Gurney Shares and such competing offer represents a value at the date and time in London of such announcement of not less than 110 per cent. of the value of the Scheme as at 5.00 p.m. (London time) on the last dealing day prior to the date of such announcement; and
- (ii) by any time following such announcement May Gurney Group Trustees Limited notifies Kier in writing that it no longer intends to vote in favour of the Scheme.

6 May Gurney material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the May Gurney Group: (a) in the two years immediately preceding the date of this document and are, or may be, material to the May Gurney Group as at the date of this document; or (b) at any time which contain provisions under which any member of the May Gurney Group has any obligation or entitlement which is material to the May Gurney Group as at the date of this document:

(i) *Acquisition of Senturion Group Limited*

On 8 November 2011, May Gurney Limited entered into a sale and purchase agreement with certain individual and private equity shareholder sellers and a minority sellers' sale and purchase agreement with certain individual minority shareholder sellers pursuant to which it agreed to acquire the entire issued share capital of Senturion Group Limited, trading as TransLinc, a provider of specialist Fleet & Passenger services in the UK to local authorities.

The consideration for the acquisition was satisfied by May Gurney Limited paying, in aggregate: (i) £22,155,745 to the sellers under both agreements on completion; and (ii) a further £635,215 into a warranty retention account by way of security for any claims brought against certain management warrantors prior to 31 January 2013. The warranty retention sum (together with accrued interest) was released (without deduction) to the management warrantors on 31 January 2013 in the proportions specified in the principal sale and purchase agreement. Both sale and purchase agreements also contain warranties, restrictive covenants and other provisions which are customary for a transaction of this nature.

In connection with this acquisition, a credit facility between a UK-based provider of personal and business financing services and May Gurney Fleet & Passenger Services Limited (secured by parent company guarantees) and an additional borrowing facility with a major financing services provider were put in place (see below for further information).

(ii) ***Facility agreement with Bank of Scotland plc***

May Gurney and other members of the May Gurney Group (the “Borrowers”) have a revolving credit facility (the “BoS Facility”) with Bank of Scotland plc as lender (the “Bank”). The BoS Facility was amended by an amendment and restatement agreement dated 7 November 2011 and has a maturity date of 7 November 2014. The BoS Facility originally provided for revolving credit facilities of £33 million; however, on 28 February 2013, in order to better meet the needs of the May Gurney Group, the Borrowers and the Bank agreed to reduce the maximum amount available under the BoS Facility to £23 million in exchange for an increase of £10 million in the overdraft facility made available to the May Gurney Group by the Bank.

As at 13 May 2013, being the latest practicable date prior to the publication of this document, £20 million of the £23 million available had been drawn under the BoS Facility.

The BoS Facility contains certain financial covenants, restrictions and other customary affirmative and negative covenants. The financial covenants in the BoS Facility require that the total interest cover ratio be equal to or greater than a 6 to 1 ratio and that the debt cover ratio be equal to or greater than a 2 to 1 ratio.

Restrictions include limitations on the ability of each of the Borrowers to assign or transfer its obligations, rights or benefits under the BoS Facility; to consolidate, merge or otherwise fundamentally change its ownership or business type; and/or to make additional borrowings.

As at the most recent covenant test date under the BoS Facility, being 31 December 2012, the Borrowers were in compliance with the above covenants and restrictions.

In connection with the Acquisition, the BoS Facility will be repaid from the proceeds of Facility B which is being made available under the Acquisition Facility Agreement described above.

(iii) ***Facility agreement with Lombard North Central plc***

May Gurney Fleet & Passenger Services Limited (the “Borrower”) has £30 million of revolving credit facilities (the “Lombard Facility”) with Lombard North Central plc. The Lombard Facility was acquired with May Gurney’s acquisition of Senturion Group Limited. The credit agreement relating to the Lombard Facility was amended by an amendment and restatement agreement dated 1 April 2010 and has a termination date of 10 July 2015. The Lombard Facility is secured by way of a May Gurney parent company guarantee.

As at 13 May 2013, being the latest practicable date prior to the publication of this document, £25.4 million had been drawn under the Lombard Facility.

The Lombard Facility contains certain financial covenants, restrictions and other customary affirmative and negative covenants. The financial covenants in the Lombard Facility require that the total interest cover ratio be equal to or greater than a 4 to 2 to 1 ratio and that the cash flow cover ratio be equal to or greater than a 3 to 5 to 1 ratio.

Restrictions include limitations on the ability of the Borrower to assign or transfer its obligations, rights or benefits under the Lombard Facility and/or to consolidate, merge or otherwise fundamentally change its ownership or business type.

As at the most recent covenant test date under the Lombard Facility, being 31 December 2012, the Borrower was in compliance with the above covenants and restrictions.

In connection with the Acquisition, Lombard North Central plc has entered into a waiver whereby it has agreed to waive any breach of the terms of the Lombard Facility which would otherwise arise as a result of the Acquisition and, accordingly, the Lombard Facility will, provided that its other terms are complied with, remain in place following the Scheme becoming Effective.

(iv) ***Equipment leasing agreements***

May Gurney and other members of the May Gurney Group are parties to certain equipment lease and hire-purchase facilities with Lloyds TSB Bank Plc, Lloyds TSB Commercial Financial Limited and HSBC Equipment Finance (UK) Limited as follows:

- (a) a master agreement for a hire purchase facility with Lloyds TSB Commercial Financial Limited dated 16 April 2007;
- (b) a master agreement for a hire purchase facility with Lloyds TSB Bank Plc dated 29 September 2008;
- (c) a master agreement for a hire purchase facility with Lloyds TSB Bank Plc dated 16 January 2012;
- (d) certain asset purchase contracts of various dates with HSBC Equipment Finance (UK) Limited, together, the “Equipment Leasing Agreements”).

As at 13 May 2013, being the latest practicable date prior to the publication of this document, the aggregate amount outstanding and secured under the Equipment Leasing Agreements was approximately £40.4 million.

The obligations of relevant members of the May Gurney Group under the Equipment Leasing Agreements are secured by a parent company guarantee from May Gurney and a security interest over the relevant assets and equipment that is the subject of those agreements.

In connection with the Acquisition, HSBC Equipment Finance (UK) Limited, Lloyds TSB Bank Plc and Lloyds TSB Commercial Financial Limited have entered into waivers whereby they have agreed to waive any breach of the terms of the relevant Equipment Leasing Agreements which would otherwise arise as a result of the Acquisition and, accordingly, the Equipment Leasing Agreements will, provided that their other terms are complied with, remain in place following the Scheme becoming Effective.

7 Related party transactions

Other than as disclosed in the financial information incorporated by reference in this document for the years ended 30 June 2010, 2011 and 2012, as well as the interim report for the year ended 31 December 2012, there are no related party transactions by the Company or members of the Kier Group that were entered into during the years ended 30 June 2010, 2011 and 2012 or the six months ended 31 December 2012. Details of related party transactions are set out on:

- (i) page 94 of Kier’s 2012 Annual Report and Accounts (at note 29 to the consolidated financial statements);
- (ii) page 94 of Kier’s 2011 Annual Report and Accounts (at note 27 to the consolidated financial statements);

- (iii) page 96 of Kier's 2010 Annual Report and Accounts (at note 27 to the consolidated financial statements); and
- (iv) page 16 of Kier's 2013 Interim Results (at note 10 to the interim financial statements).

There have been no additional related party transactions by the Company or members of the Kier Group that were entered into during the period between 31 December 2012 and 13 May 2013 (being the latest practicable date prior to the publication of this document).

8 Dividends

The following table sets out the dividend per Kier Share paid in respect of each of the years ended 30 June 2012, 2011 and 2010:

	2013	2012	2011	2010
			<i>(pence)</i>	
Final dividend	N/A	44.5	44.0	39.5
Interim dividend	21.5	21.5	20.0	18.5

9 Working capital

- 9.1 Kier is of the opinion that the working capital available to the Kier Group is sufficient for its present requirements, that is for at least the next 12 months from the date of publication of this document.
- 9.2 Kier is also of the opinion that the working capital available to the Enlarged Group is sufficient for its present requirements, that is for at least the next 12 months from the date of publication of this document.

10 No significant change

- 10.1 There has been no significant change in the trading or financial position of the Kier Group since 31 December 2012, the date of the last financial period for which Kier's unaudited financial information was prepared.
- 10.2 Save as set out in paragraph 10.3 of this Part XI, there has been no significant change in the financial or trading position of the May Gurney Group since 30 September 2012, the date of the last financial period for which May Gurney's last unaudited financial information was prepared.
- 10.3 On 12 April 2013, May Gurney confirmed that it had been notified by Norfolk County Council that its formal appeal against the decision not to select it for the short list in relation to the re-bid for Norfolk County Council's highway and related services procurement contract had been rejected.

11 Significant shareholdings

- 11.1 As at 13 May 2013 (being the latest practicable date prior to the publication of this document), the Company had been notified in accordance with DTR5 of the Disclosure and Transparency Rules of the following interests in its Ordinary Shares:

	<i>Number of shares</i>	<i>Percentage interest of issued ordinary share capital</i>
Standard Life Investments Limited	3,650,157	9.17
Schroders plc	2,007,175	5.04
Norges Bank	1,999,188	5.02

- 11.2 Save as disclosed in this paragraph 11 of this Part XI, Kier is not aware of any person who, as at 13 May 2013 (being the latest practicable date prior to the publication of this document), directly or indirectly, has a holding which is notifiable under English law.

11.3 Kier is not aware of any persons who, as at 13 May 2013 (being the latest practicable date prior to the publication of this document), directly or indirectly, jointly or severally, exercise or could exercise control over Kier nor is it aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

11.4 None of the Kier Shareholders referred to in this paragraph 11 of this Part XI has different voting rights from any other holder of Kier Shares in respect of any Kier Shares held by them.

12 Subsidiaries

Kier is the parent company of the Kier Group. The following table contains a list of the principal (but not necessarily direct) subsidiaries of Kier and of May Gurney (each of which is considered by Kier to be likely to have a significant effect on the assessment of the assets, liabilities, financial position and/or profits and losses of the Enlarged Group):

<i>Name</i>	<i>Percentage ownership interest</i>	<i>Country of incorporation</i>	<i>Registered office</i>
<i>Principal Kier subsidiaries</i>			
Allison Homes Eastern Limited	100	UK	UK
Bellwinch Homes Limited	100	UK	UK
Kier Construction Limited	100	UK	UK
Kier Developments Limited	100	UK	UK
Kier Facilities Services Limited	100	UK	UK
Kier Homes Caledonia Limited	100	UK	UK
Kier Homes Limited	100	UK	UK
Kier Homes Northern Limited	100	UK	UK
Kier Infrastructure and Overseas Limited	100	UK	UK
Kier International Limited	100	UK	UK
Kier Limited	100	UK	UK
Kier Minerals Limited	100	UK	UK
Kier National Limited	100	UK	UK
Kier Partnership Homes Limited	100	UK	UK
Kier Project Investment Limited	100	UK	UK
Kier Property Developments Limited	100	UK	UK
Kier Property Limited	100	UK	UK
Kier Services Limited	100	UK	UK
Kier Ventures Limited	100	UK	UK
Twigden Homes Limited	100	UK	UK
<i>Principal May Gurney subsidiaries</i>			
May Gurney Limited	100	UK	UK
May Gurney Estates Limited	100	UK	UK
May Gurney Recycling CIC	100	UK	UK
Turriff Group Limited	100	Scotland	Scotland
Turriff Contractors Limited	100	Scotland	Scotland
TOR2 Limited	80	UK	UK
May Gurney Fleet & Passenger Services Limited	100	UK	UK

13 Mandatory takeover bids, squeeze-out rules, sell-out rules and takeover bids

13.1 *Mandatory takeover bids*

The City Code on Takeovers and Mergers applies to the Company. Under the City Code, if an acquisition of interests in shares were to increase the aggregate holding of an acquirer and persons acting in concert with it to an interest in shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending upon the circumstances, persons acting in concert with it, would be required (except with the consent of the Takeover Panel) to make a cash offer for the outstanding shares at a price not less than the highest price paid for any interest in shares by the acquirer or his concert parties during the previous 12 months. A similar obligation to make such a mandatory offer would also arise on the acquisition of an interest in shares by a person holding (together with any persons acting in concert) an interest in shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights.

13.2 *Squeeze-out rules*

Under the Companies Act, if a "takeover offer" (as defined in section 974 of the Companies Act) is made for the Kier Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90 per cent. in value of the shares to which the offer relates (the "Offer Shares") and not less than 90 per cent. of the voting rights attached to the Offer Shares, within three months of the last day on which its offer can be accepted, it could acquire compulsorily the outstanding shares not assented to the offer. It would do so by sending a notice to outstanding shareholders telling them that it will acquire compulsorily their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose shares are acquired compulsorily under the Companies Act must, in general, be the same as the consideration that was available under the takeover offer.

13.3 *Sell-out rules*

The Companies Act also gives minority shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the Kier Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. of the Kier Shares to which the offer relates, any holder of Kier Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those Kier Shares. The offeror is required to give any shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of the minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises his or her rights, the offeror is bound to acquire those Kier Shares on the terms of the offer or on such other terms as may be agreed.

13.4 *Takeover bids*

No public takeover bid has been made in relation to the Company during the last financial year or the current financial year.

14 Consents

14.1 J.P. Morgan Cazenove, whose address is 25 Bank Street, London E14 5JP, has given and has not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.

14.2 Numis, whose address is 10 Paternoster Square, London EC4M 7LT, has given and has not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.

- 14.3 The auditors and reporting accountants of the Company are KPMG Audit Plc, whose address is 15 Canada Square, London E14 5GL. KPMG Audit Plc has given and has not withdrawn its written consent to the inclusion in this document of its accountant's report in Part VIII of this document in the form and context in which it appears, and has authorised the contents of that report for the purposes of paragraph 5.5.3(2)(f) of the Prospectus Rules. KPMG Audit Plc is a member of the Institute of Chartered Accountants of England and Wales.

15 General

- 15.1 The financial information concerning Kier contained in this document does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act. The consolidated financial statements of the Company in respect of the three years ended 30 June 2010, 2011 and 2012 incorporated by reference in this document were reported on by KPMG, the auditors of the Company, within the meaning of section 495 of the Companies Act for the relevant periods. The auditors of the Company made reports under section 503 of the Companies Act in respect of the three years ended 30 June 2010, 2011 and 2012 incorporated by reference in this document and such reports were unqualified reports within the meaning of sections 836 to 841 of the Companies Act.
- 15.2 The Company remains subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash, and the provisions of section 561 of the Companies Act (which confers on Kier Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to any further issuances of share capital of the Company.
- 15.3 The Existing Kier Shares are in registered form, are capable of being held in uncertificated form and are admitted to the premium listing segment of the Official List and are traded on the London Stock Exchange's main market for listed securities.
- 15.4 The New Kier Shares will be in registered form and, from Admission, will be capable of being held in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations). Where New Kier Shares are held in certificated form, share certificates will be sent to the registered members by first-class post. Where New Kier Shares are held in CREST, the relevant CREST stock account of the registered members will be credited. The New Kier Shares have the ISIN GB0004915632.
- 15.5 The Company will make an appropriate announcement(s) to a Regulatory Information Service if the Scheme becomes Effective, which is expected to be on or about 5 July 2013.
- 15.6 The aggregate costs and expenses of the Acquisition payable by the Enlarged Group are estimated to be approximately £17.5 million (exclusive of VAT).

16 Sources of information and bases of calculations

In this document:

- 16.1 Unless otherwise stated:
- (A) financial information relating to the Kier Group has been extracted or derived (without any adjustment) from Kier's 2012 Annual Report and Accounts (which are audited) and Kier's 2013 Interim Results (which are unaudited); and
 - (B) financial information relating to the May Gurney Group has been extracted or derived (without any adjustment) from May Gurney's 2012 Annual Report and Accounts (which are audited) and May Gurney's 2012 Interim Results (which are unaudited).
- 16.2 The value of the Acquisition is calculated:
- (A) by reference to the price of 1,265 pence per Kier Share, being the Closing Price on 23 April 2013, the last Business Day prior to the date of the Acquisition Announcement; and

- (B) on the basis of the fully diluted number of May Gurney Shares in issue referred to in paragraph 16.5 of this Part XI.
- 16.3 The expected operational cost savings have been calculated on the basis of the existing cost and operating structures of Kier and May Gurney. These statements of estimated cost savings and one-off costs for achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties and other factors. Because of this, the cost savings referred to may not be achieved, or those achieved could be materially different from those estimated. This statement is not intended to be a profit forecast and should not be interpreted to mean that the earnings per share in 2013 or in any subsequent financial period, would necessarily match or be greater than those for the relevant preceding financial period.
- 16.4 The statements that the Acquisition is expected to be materially earnings enhancing for Kier in 2013 (the first full year following completion of the Acquisition) relate to future actions and circumstances which, by their nature, involve risks, uncertainties and other factors. These statements do not constitute a profit forecast and should not be interpreted to mean that earnings for that year or any subsequent financial period would necessarily match or be greater than those for any preceding financial period. Earnings in this context represent net after tax earnings before the amortisation of intangible assets and non-operating items.
- 16.5 The number of New Kier Shares to be issued pursuant to the Acquisition, being 14,741,445, is based on 70,236,016 May Gurney Shares in issue as at the date of the Acquisition Announcement and assumes that there are no May Gurney Shares or other Kier Shares are issued between 13 May 2013 and the Effective Date.
- 16.6 All share prices expressed in pence and all percentages have been rounded to one decimal place.
- 16.7 Where information has been sourced from a third party, Kier confirms that the information has been accurately reproduced and, as far as Kier is aware and able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third-party information has been used, the source of such information has been identified wherever it appears in this document.
- 16.8 The Englarged Group's combined order book of approximately £5.7 billion is calculated using Kier's order book of approximately £4.2 billion as at 31 December 2012 and May Gurney's order book of approximately £1.5 billion as at 30 September 2012.

17 Documents available for inspection

Copies of the following documents:

- 17.1 the Kier Articles;
- 17.2 the audited consolidated financial statements of the Kier Group for the three years ended 30 June 2010, 2011 and 2012 and the unaudited consolidated interim financial statements of the Kier Group for the six months ended 31 December 2012;
- 17.3 the audited consolidated financial statements of the May Gurney Group for the three years ended 31 March 2010, 2011 and 2012 and the unaudited consolidated interim financial statements of the May Gurney Group for the six months ended 30 September 2012;
- 17.4 the consent letters referred to in paragraph 14 of this Part XI;
- 17.5 the report from KPMG set out in section B of Part VIII of this document; and
- 17.6 this document

are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period from the date of publication of this document until Admission at:

- (A) the registered office of Kier, Tempsford Hall, Sandy, Bedfordshire SG19 2BD; and
- (B) the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ.

APPENDIX I

DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

2003 Scheme	means the May Gurney Integrated Services Unapproved Share Option Scheme;
2010 LTIP	means the Kier Group 2010 Long-Term Incentive Plan, which was approved by Kier's shareholders on 12 November 2010;
Acquisition	means the proposed all-share acquisition of Kier with May Gurney to be implemented by way of (i) the Scheme or (ii) the Acquisition Offer (as the case may be);
Acquisition Announcement	means the announcement made by Kier, dated 24 April 2013, of the terms of the all-share acquisition of Kier with May Gurney;
Acquisition Facility Agreement	means the term and revolving credit facility agreement dated 22 April 2013 between the Company as borrower and the Royal Bank of Scotland plc, HSBC Bank plc, Lloyds Bank plc and Santander UK PLC as lead arrangers and original lenders;
Acquisition Offer	means, should the Acquisition be implemented by way of a takeover offer as defined in Chapter 3 of Part 28 of the Companies Act, the recommended offer to be made by or on behalf of Kier to acquire the entire issued and to be issued share capital of May Gurney and, where the context admits, any subsequent revision, variation, extension or renewal of such offer;
Admission	means admission of the New Kier Shares to the premium listing segment of the Official List in accordance with the Listing Rules and to trading on the London Stock Exchange's main market for listed securities in accordance with the Admission and Disclosure Standards;
Admission and Disclosure Standards	means the requirements contained in the publication "Admission and Disclosure Standards" dated April, 2002 (as amended from time to time) containing, amongst other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's market for listed securities;
AESOP	means the Kier Group All Employee Share Ownership Plan;
AIM	means the market of that name operated by the London Stock Exchange;
AIM Rules	means the Rules and Guidance notes for AIM Companies and their nominated advisers issued by the London Stock Exchange from time to time relating to AIM traded securities and the operation of AIM;
BFK	means the joint venture formed between BAM Nuttall, Ferrovial and Kier Infrastructure & Overseas Limited;
Biogen	means Biogen (UK) Limited;

Biogen Holdings	means Biogen Holdings Limited;
Board	means Kier’s board of directors, May Gurney’s board of directors or the Enlarged Group’s board of directors, as appropriate;
Bonus Shares	means the Kier Shares acquired pursuant to the DBA;
BoS	means Bank of Scotland plc;
BoS SPA	means the share purchase agreement pursuant to which BoS sold its shares in Kier Developments to Kier Property;
Business Day	means any day (other than a Saturday, Sunday, public or bank holiday) on which banks generally are open for business in London (other than solely for settlement and trading in Euro);
Capital Reduction	means the proposed reduction of share capital of May Gurney pursuant to the Scheme;
Castlepoint	means Castlepoint Limited Partnership;
City Code	means the City Code on Takeovers and Mergers of the United Kingdom;
Closing Price	means the closing middle market price of a Kier Share or a May Gurney Share as derived from the Daily Official List for Kier and the AIM appendix to the Daily Official List for May Gurney;
Companies Act	means the Companies Act 2006, as amended;
Competition Commission	means the independent public body which conducts second-phase in-depth inquiries into mergers, markets and the regulation of the major regulated industries in the United Kingdom (or any successor body or bodies carrying out the same functions in the United Kingdom from time to time);
Conditions	means the conditions to the Acquisition referred to in paragraph 13 of Part I of this document and “Condition” means any one of them;
Court	means the High Court of Justice in England and Wales;
Court Hearings	means the Scheme Court Hearing and the Reduction Court Hearing and “Court Hearing” means either one of them (as the case may be);
Court Meeting	means the meeting of May Gurney Shareholders, as convened by order of the Court under section 896 of the Companies Act, to consider and, if thought fit, approve the Scheme;
Court Orders	means the orders of the court sanctioning the Scheme and confirming the Capital Reduction involved therein;
CREST	means the relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the operator (as defined in the CREST Regulations);
CREST Regulations	means the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended;
CSOP	means the May Gurney Company Share Ownership Plan;
Daily Official List	means the daily official list of the London Stock Exchange;

DBA	means the deferred bonus arrangement of the Kier Group;
Deferred Bonus Scheme	means the May Gurney Deferred Share Bonus Scheme Plan;
Disclosure and Transparency Rules or DTRs	means the rules and regulations made by the FCA and contained in the FCA's publication of the same name;
EBITA	means operating profit before amortisation and non-recurring costs after writing off bidding and mobilisation costs incurred;
EBT	means the Kier Group 1999 Employee Benefit Trust;
Effective	means, if the Acquisition is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms and "the Scheme becoming Effective" shall be construed accordingly;
Effective Date	means the date on which the Scheme becomes Effective, which is expected to be 5 July 2013;
Enlarged Group	means the Kier Group including the May Gurney Group (if the Scheme becomes Effective) following the Effective Date;
Enlarged Group Board Members	means the board members of the Enlarged Group, comprising the Kier Directors and "Enlarged Group Board" shall be construed accordingly;
Enlarged Services Division	means the services division of the Kier Group following the Acquisition;
EPS	means underlying earnings per share, before non-recurring items;
Euroclear	means Euroclear UK & Ireland Limited;
Excluded Shares	means any May Gurney Shares beneficially owned by Kier or any subsidiary undertaking (as defined in the Companies Act) of Kier and any unissued shares in the capital of May Gurney;
Existing Kier Shareholders	means holders of Existing Kier Shares;
Existing Kier Shares	means the Kier Shares in issue as at the date of this document;
FCA	means the UK Financial Conduct Authority;
Financial Advisers	means J.P. Morgan Cazenove and Numis;
Form of Election	means the form of election relating to the Mix and Match Facility sent to the holders of Scheme Shares in certificated form other than Overseas Shareholders in Restricted Jurisdictions;
Form of Proxy	means the form of proxy accompanying this document for use in connection with the Kier General Meeting;
FSMA	means the Financial Services and Markets Act 2000, as amended;
FY2010	means May Gurney's financial year ended 31 March 2010;
FY2011	means May Gurney's financial year ended 31 March 2011;
FY2012	means May Gurney's financial year ended 31 March 2012;
gross dividend	means a dividend plus its related tax credit when paid to a shareholder who is an individual resident (for tax purposes) in the United Kingdom;

Group	means the Kier Group, the May Gurney Group or the Enlarged Group, as appropriate;
HMRC	means HM Revenue & Customs;
HY2011	means the six months ending 30 September 2010, being the first half of May Gurney's financial year ended 31 March 2011;
HY2012	means the six months ending 30 September 2011, being the first half of May Gurney's financial year ended 31 March 2012;
HY2013	means the six months ending 30 September 2012, being the first half of May Gurney's financial year ended 31 March 2013;
IAS	means the International Accounting Standards;
IASB	means the International Accounting Standards Board;
IFRS	means the International Financial Reporting Standards;
IT	means information technology;
Joint Broker	means J.P. Morgan Cazenove and Numis;
J.P. Morgan Cazenove	means the UK investment banking business of J.P. Morgan Limited, 25 Bank Street, E14 5JP;
Kier Articles	means the articles of association of Kier;
Kier's 2010 Annual Report and Accounts	means Kier's 2010 Annual Report and Accounts, containing Kier's audited consolidated financial statement in respect of the financial year ended 30 June 2010;
Kier's 2011 Annual Report and Accounts	means Kier's 2011 Annual Report and Accounts, containing Kier's audited consolidated financial statement in respect of the financial year ended 30 June 2011;
Kier's 2012 Annual Report and Accounts	means Kier's 2012 Annual Report and Accounts, containing Kier's audited consolidated financial statement in respect of the financial year ended 30 June 2012;
Kier Board	means the board of directors of Kier;
Kier Developments	means Kier Developments Limited;
Kier Directors	means the directors of Kier, and "Kier Director" means any one of them;
Kier General Meeting	means the General Meeting of Kier to be held at 10.00 a.m. on 14 June 2013, or any adjournment thereof, to consider and, if thought fit, to approve the Resolutions;
Kier Group	means Kier and its subsidiary undertakings;
Kier Group Pension Scheme	means the Kier Pension Scheme, governed and administered in accordance with the provisions of a definitive trust deed and rules dated 4 June 2010, as amended by a deed of amendment dated 3 April 2012;
Kier Interim Dividend	means the interim dividend of 21.5 pence per Kier Share to be paid on 17 May 2013;

Kier's 2013 Interim Results	means Kier's interim results for the six months ended 31 December 2012;
Kier or the Company	means Kier Group plc;
Kier Property	means Kier Property Limited;
Kier Share Schemes	means the 2010 LTIP, AESOP, the Sharesave Scheme and the DBA;
Kier Shareholders	means holders of Kier Shares;
Kier Shares	means ordinary shares of 1 pence each in the capital of Kier (including, if the context requires, the New Kier Shares);
KPIL	means Kier Project Investment Limited;
KPMG	means KPMG Audit Plc;
Listing Rules	means the rules and regulations made by the FCA in its capacity as the UK Listing Authority under FSMA and contained in FCA's publication of the same name;
London Stock Exchange	means London Stock Exchange plc;
May Gurney	means May Gurney Integrated Services PLC, registered in England and Wales with company number 04321657 with its registered office at Trowse, Norwich, Norfolk, NR14 8SZ;
May Gurney Board	means the board of directors of May Gurney;
May Gurney Directors	means the directors of May Gurney, and "May Gurney Director" means any one of them;
May Gurney General Meeting	means the general meeting of the May Gurney Shareholders to be convened to consider and if thought fit pass, <i>inter alia</i> , the Special Resolution;
May Gurney Group	means May Gurney and its subsidiary undertakings;
May Gurney Pensions Scheme	means the May Gurney Group Limited Pension Scheme, governed and administered in accordance with the provision of a definitive trust deed and rules dated 24 September 1998, as amended;
May Gurney Second Interim Dividend	means the second interim dividend of 5.6 pence per May Gurney Share payable to each May Gurney Shareholder in respect of the financial year ended 31 March 2013;
May Gurney Share Schemes	means the May Gurney Integrated Services Unapproved Share Option Scheme, the May Gurney Long Term Incentive Plan, the May Gurney Integrated Services PLC Company Share Option Plan (2007), the May Gurney Integrated Services PLC Deferred Share Bonus Plan, the May Gurney Integrated Services PLC Savings Related Option Scheme (2007), the May Gurney Integrated Services PLC Share Incentive Plan, the standalone share option to acquire 151,515 May Gurney Shares held by Nicholas Chesters and the standalone share option to acquire 5,961 May Gurney Shares held by Matthew Hall;
May Gurney Shareholders	means holders of May Gurney Shares;

May Gurney Shares	means the existing unconditionally allotted or issued and fully paid (or credited as fully paid) ordinary shares of 5 pence each in the capital of May Gurney and any further such shares which are unconditionally allotted or issued on or prior to the Effective Date;
Meetings	means the Scheme Meeting and the May Gurney General Meeting;
Mix and Match Facility	means the mix and match facility under which May Gurney Shareholders (other than certain Overseas Shareholders) may elect, subject to equal and opposite elections made by other May Gurney Shareholders, to vary the proportions in which they receive New Kier Shares and cash under the Acquisition;
MTRC	means Mass Transit Railway Corporation;
net cash	means net cash excludes finance leases and includes short-term bank loans;
New Kier Shares	means the Kier Shares proposed to be issued fully paid to May Gurney Shareholders pursuant to the Scheme;
Nomination Committee	means the nomination committee of the Kier Board;
Notice of General Meeting	means the notice of Kier General Meeting that is found at the end of this document at page 322;
Numis	means Numis Securities Limited, 10 Paternoster Square, London EC4M 7LT;
Official List	means the list maintained by the UK Listing Authority;
OFT	means the Office of Fair Trading;
Ofwat	means the Water Services Regulation Authority, being the body responsible for economic regulation of the privatised water and sewerage industry in England and Wales;
Overseas Shareholders	means Scheme Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom;
Panel	means the United Kingdom Panel on Takeovers and Mergers;
Pensions Regulator	means the regulator established under Part 1 of the Pensions Act 2004 (as amended) in the United Kingdom;
PFI	means private finance initiative
Prospectus Rules	means the Prospectus Rules brought into effect on 1 July 2005 pursuant to Commission Regulation (EC) No. 809/2004;
RBC	means The Royal Bank of Canada;
RBS	means The Royal Bank of Scotland plc;
Reduction Court Hearing	means the hearing by the Court of the Claim form to confirm the Capital Reduction;
Reduction Court Order	means the order of the Court under section 648 of the Companies Act confirming the Capital Reduction;
Reduction of Capital	means the proposed reduction of share capital of May Gurney pursuant to the Scheme;

Registrar of Companies	means the Registrar of Companies in England and Wales;
Regulatory Information Service	means any of the services set out in Schedule 12 to the Listing Rules of the UK Listing Authority;
Remuneration Committee	means the remuneration committee of the Kier Board;
Reorganisation Record Time	means the time and date at which a copy of the Scheme Court Order is delivered to the Registrar of Companies;
Resolutions	means the ordinary resolutions to be proposed at the Kier General Meeting (and set out in the Notice of General Meeting) to, among other matters, approve the Acquisition, authorise the Kier Directors to allot the New Kier Shares and increase the permitted borrowings of the Kier Group;
Restricted Jurisdiction	means any jurisdiction where offering the New Kier Shares or making them available for subscription or purchase would result in a requirement to comply with any governmental or other consent or any registration, filing or other formality which Kier or May Gurney regards as unduly onerous;
Risk Management and Audit Committee	means the risk management and audit committee of the Kier Board;
ROCE	means return on capital employed;
Scheme	means the proposed scheme of arrangement under Part 26 of the Companies Act between May Gurney and Scheme Shareholders to implement the Acquisition;
Scheme Court Hearing	means the hearing of the Court to sanction the Scheme under section 899 of the Companies Act;
Scheme Court Order	means the order of the Court sanctioning the Scheme under section 899 of the Companies Act;
Scheme Document	means the document to be despatched to May Gurney Shareholders including the particulars required by section 897 of the Companies Act;
Scheme Record Time	means the time and date specified in the Scheme Document, expected to be 6.00 p.m. on the Business Day immediately prior to the date of the Court Meeting;
Scheme Shareholders	means holders of Scheme Shares;
Scheme Shares	means the May Gurney Shares: <ul style="list-style-type: none"> (i) in issue at the date of the Scheme; (ii) issued after the date of the Scheme but before the Voting Record Time; and (iii) issued at or after the Voting Record Time and before the Reorganisation Record Time on terms that the original or any subsequent holders shall be, or shall have agreed in writing by such time to be, bound by the Scheme, in each case, excluding any Excluded Shares;

SDRT	means stamp duty reserve tax;
SEC	means the US Securities and Exchange Commission;
SGN	means Scotia Gas Networks;
Shareholders' Agreement	means the shareholders' agreement between KPIL, Kier Limited and Kier, dated 2 August 2011;
Sharesave Scheme	means the Kier Group 2006 Sharesave Scheme, which was approved by Kier shareholders on 25 November 2006;
SHE	means safety, health and environment;
SHE Committee	means the SHE committee of the Kier Board;
Solum	means Solum Regeneration (Epsom) Limited Partnership;
Special Resolution	means the special resolution to be proposed by May Gurney at the May Gurney General Meeting in connection with, amongst other things, the approval of the Scheme and confirmation of the Reduction of Capital, the amendment of May Gurney's articles of association and such other matters as may be necessary to implement the Scheme and the delisting of the May Gurney shares;
SRM	means Sir Robert McAlpine;
Statement of Capital	means the statement of capital (approved by the Court) showing, with respect to May Gurney's share capital as altered by the Reduction Court Order, the information required by section 649 of the Companies Act;
Term Loan Agreement	means the term loan facility agreement with Lloyds TSB plc as agent, lead arranger and original lender, dated 11 January 2013;
Third Party	means any government, government department or governmental, quasi-governmental, supranational, statutory, regulatory, environmental or investigative body, court, stock exchange, trade agency, association, institution or any other body or person whatsoever in any jurisdiction;
TransLinc Scheme	means the TransLinc Pension Scheme, governed and administered in accordance with the provision of a definitive trust deed and rules dated 30 March 2000, as amended;
TUPE	means Transfer of Undertakings (Protection of Employment) Regulations 2006;
Uberior	means Uberior Ventures Limited;
UK Corporate Governance Code	means the UK Corporate Governance Code on the Principles of Good Governance and Code of Best Practice published in June 2010 by the Financial Reporting Council in the UK;
UK Government	means the government of the United Kingdom;
UK Listing Authority	means the United Kingdom Financial Conduct Authority in its capacity as the competent authority for listing under Part VI of the UK Financial Services and Markets Act 2000;
UK or United Kingdom	means the United Kingdom of Great Britain and Northern Ireland;

underlying profit before tax	means profit before tax, amortisation and non-recurring costs;
US or United States or United States of America	means the United States of America, its territories and possessions, any State of the United States and the District of Columbia; and
US Exchange Act	means the United States Securities Exchange Act of 1934, as amended;
US Securities Act	means the United States Securities Act of 1933, as amended; and
Voting Record Time	means 6.00 p.m. on the day which is two days before the Scheme Meeting or, if the Scheme Meeting is adjourned, 6.00 p.m. on the second day before the date of such adjourned meeting.

All references to legislation in this document are to the legislation of England and Wales, unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and *vice versa* and words importing the masculine gender shall include the feminine or neutral gender.

References to “£”, “Pound sterling”, “p” and “pence” are to the lawful currency of the United Kingdom.

APPENDIX II

RELEVANT DOCUMENTATION

The following documentation, which was sent to Kier Shareholders at the relevant time and/or is available for inspection in accordance with paragraph 17 of Part XI of this document, contains information which is relevant to the Acquisition:

<i>Information incorporated by reference in this document</i>	<i>Location of incorporation in this document</i>	<i>Page number in this document</i>
Kier's 2013 Interim Results	Part V	76
Kier's 2012 Annual Report and Accounts	Part V	76
Kier's 2011 Annual Report and Accounts	Part V	75
Kier's 2010 Annual Report and Accounts	Part V	75

Copies of the documents which are incorporated by reference in this document are available as provided in paragraph 17 of Part XI of this document.

NOTICE OF GENERAL MEETING

KIER GROUP PLC

(Incorporated in and registered in England and Wales with registered number 02708030)

NOTICE IS HEREBY GIVEN that a general meeting of Kier Group plc (the “Company”) will be held at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ at 10.00 a.m. on 14 June 2013 (the “Meeting”) for the purpose of considering and, if thought fit, passing the following resolutions, each of which will be proposed as an ordinary resolution:

ORDINARY RESOLUTIONS

THAT:

- 1 subject to resolutions 2 and 3 below being passed:
 - 1.1 the proposed acquisition by the Company of the entire issued and to be issued ordinary share capital of May Gurney Integrated Services PLC (“May Gurney”) (the “Acquisition”) to be implemented by way of a Court-sanctioned scheme of arrangement of May Gurney under Part 26 of the Companies Act 2006 (the “Scheme”) (or a contractual offer made by or on behalf of the Company (the “Offer”)), substantially on the terms set out in the prospectus and circular to shareholders outlining the Acquisition dated 14 May 2013 (a copy of which is produced to the meeting and signed for identification purposes by the chairman of the meeting) be and is hereby approved; and
 - 1.2 the directors of the Company (the “Directors”) (or any duly constituted committee thereof) be and hereby are authorised to: (i) take all such steps as may be necessary or desirable in connection with, and to implement, the Acquisition; and (ii) agree such modifications, variations, revisions, waivers or amendments to the terms and conditions of the Acquisition (provided such modifications, variations, revisions, waivers or amendments are not a material change to the terms of the Acquisition), and to any documents and arrangements relating thereto, in either such case as they may in their absolute discretion think fit.
- 2 subject to, and conditional upon, (i) the Scheme becoming Effective (save for the delivery of the orders of the High Court of Justice in England and Wales (the “Court”) sanctioning the Scheme and confirming the reduction of capital of May Gurney to the Registrar of Companies in England and Wales and (if so ordered by the Court) the registration of such order(s) by the Registrar of Companies in England and Wales); (ii) the UK Listing Authority having acknowledged to the Company or its agent (and such acknowledgement not having been withdrawn) that the application for the admission of the new ordinary shares of 1 pence each in the capital of the Company to be issued in connection with the Acquisition (“New Ordinary Shares”) to the premium listing segment of the Official List of the UK Listing Authority has been approved and (after satisfaction of any conditions to which such approval is expressed to be subject (the “listing conditions”)) will become effective as soon as a dealing notice has been issued by the Financial Conduct Authority and any listing conditions have been satisfied; and (iii) the London Stock Exchange plc (the “London Stock Exchange”) having acknowledged to the Company or its agent (and such acknowledgement not having been withdrawn) that the New Ordinary Shares will be admitted to trading on the London Stock Exchange’s main market for listed securities (“Admission”), or, as the case may be, the Offer becoming or being declared wholly unconditional (save for Admission), the Directors be and are hereby authorised generally and unconditionally pursuant to and in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot the New Ordinary Shares and to grant rights to subscribe for or to convert any security into shares in the Company, credited as fully paid, with authority to deal with fractional entitlements arising out of such allotment as they think fit and to take all such other steps as they may in their absolute discretion deem necessary, expedient or appropriate to implement such allotment, in connection with the Acquisition up to an aggregate nominal amount

of £147,144.45, which authority (i) shall expire on the fifth anniversary of the date of this resolution, save that the Company may allot shares in the Company in connection with the Scheme (or an Offer, as the case may be) and the Acquisition pursuant to any agreement entered into at any time prior to such expiry (whether before or after the passing of this resolution) which would or might require shares in the Company to be allotted after such expiry and the Directors may allot shares in the Company in pursuance of such agreement as if the authority conferred hereby had not expired and (ii) shall be in addition and without prejudice to any other authority under section 551 of the Companies Act 2006 previously granted and in force on the date on which this resolution is passed.

- 3 subject to, and conditional upon, the Scheme becoming effective, for the purposes of article 98 of the articles of association of the Company (the “Articles”), the aggregate amount for the time being outstanding of the net borrowings of the group (excluding money owed by any member of the group to any other member of the group) shall not exceed an amount being the greater of (i) three times the adjusted capital and reserves and (ii) £550 million. For the purpose of this resolution, the terms “the group”, “net borrowings” and “adjusted capital and reserves” shall have the meaning given in, or be interpreted in accordance with, the Articles.

Hugh Raven
Company Secretary
Kier Group plc

14 May 2013

Registered office:
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

By order of the Board

NOTES TO THE NOTICE OF GENERAL MEETING

- 1 At the Meeting, the votes will be taken by poll rather than on a show of hands. All proxy votes will be added to the votes of those shareholders present at the Meeting, who will vote all their shares (rather than one vote per person, as would be the case on a show of hands).
- 2 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders entered in the register of members of the Company at 10.00 a.m. on 12 June 2013 will be entitled to attend and vote at the Meeting in respect of the shares registered in their name at that time. Changes to entries in the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the Meeting.
- 3 A shareholder entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend, speak and vote on its behalf, provided that each proxy is appointed in respect of a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. Appointing a proxy does not prevent a shareholder from attending and voting at the Meeting. If a shareholder appoints a proxy but attends the Meeting in person, the proxy appointment will be automatically terminated. If a share is held by joint shareholders, and more than one of the joint holders votes (including by way of proxy), the only vote that will count is the vote of the person whose name is listed as the first of the joint holders in the Company's register of members.
- 4 In order to be valid, a completed and signed form of proxy must be lodged with the Company's Registrars, Capita Registrars, at 10.00 a.m. by no later than 12 June 2013 or not less than 48 hours before the start of any adjournment of the Meeting (ignoring any part of a day that is not a working day). A form of proxy will be sent to shareholders. The form can be lodged by post, electronically or, for CREST members, via the CREST electronic proxy appointment service.
- 5 Any corporate shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its power as a member provided that they do not do so in relation to the same shares.
- 6 Shareholders may submit their proxy vote electronically via www.kier.co.uk/vote. Enter "Kier Group plc" into the search box and click search. Click on the Company's name to be taken to the login page. From there, shareholders can log into their Capita share portal accounts or register for the Capita share portal.

To register, select "Register" from the menu, then enter the relevant surname, investor code and postcode and follow the on-screen instructions. Shareholders will be able to vote immediately by selecting "Online Voting" from the menu. Shareholders can find their investor code on the form of proxy.

- 7 Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act to enjoy information rights (a "Nominated Person") may, under an agreement between it and the shareholder by whom it was nominated, have a right to be appointed (or have someone else appointed) as a proxy for the Meeting. If a Nominated Person has no such proxy appointment or does not exercise it, it may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statement of the rights of shareholders in relation to the appointment of proxies in note 3 above does not extend to Nominated Persons.
- 8 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting and any adjournment thereof by using the procedures described in the CREST manual. The CREST manual can be found at www.euroclear.com. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST proxy instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specification and must contain the information required for such instructions, as described in the CREST manual. All messages regarding the appointment of a proxy or an instruction to a previously appointed proxy must be transmitted so as to be received by Capita Registrars (ID RA10) by no later than 10.00 a.m. on 12 June 2013. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will apply in relation to the input of CREST proxy instructions. It is therefore the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time.
- 9 In the case of joint shareholders, where more than one of the joint shareholders purports to appoint a proxy, only the appointment submitted by the most senior shareholder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
- 10 Shareholders may change their proxy instructions by submitting a new proxy appointment using the methods set out or referred to above. The cut-off times for receipt of proxy appointments set out above also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where a shareholder has appointed a proxy using the hard copy proxy form and would like to change the instructions using another hard copy proxy form, it should contact the Company's Registrars, Capita Registrars, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

If more than one valid proxy appointment is submitted, the appointment received last before the latest time for the receipt of proxies will take precedence.

- 11 In order to revoke a proxy instruction, a shareholder will need to inform the Company by sending a signed hard copy notice clearly stating its intention to revoke its proxy appointment to the Company's Registrars, Capita Registrars, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a shareholder which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by no later than 10.00 a.m. on 12 June 2013. If a shareholder attempts to revoke its proxy appointment but the revocation is received after the time specified then the original proxy appointment will remain valid.

Termination of proxy appointments made through CREST must be made in accordance with the procedures described in the CREST manual.

- 12 CREST members and, where applicable, their CREST sponsors or voting service providers, are directed to those sections of the CREST manual concerning the practical limitations of the CREST systems and timings. The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 13 As at 13 May 2013 (the latest practicable date before publication of this notice), the total number of ordinary shares of 1p in the capital of the Company in issue was 39,810,675 shares, with each share carrying the right to one vote. The total number of voting rights in the Company as at such date was therefore 39,810,675. There are no shares held in treasury.
- 14 From the date of this notice and for the next two years the following information will be available on the Company's website (www.kier.co.uk) and can be accessed via the Investor Relations section of such website:

- (a) the matters set out in this notice;
- (b) the total number of shares in the Company in respect of which members are entitled to exercise voting rights at the Meeting; and
- (c) the total of the voting rights that members are entitled to exercise at the Meeting.

Any members' statements, members' resolutions and members' matters of business received by the Company after the date of this notice will be added to the information already available on the website as soon as reasonably practicable and will also be made available for the following two years.

- 15 Pursuant to section 319A of the Companies Act, any member attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting, but no such answer need be given: (i) if to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information or (ii) if the answer has already been given on a website in the form of an answer to a question or (iii) if it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.
- 16 Pursuant to Chapter 5 of Part 16 of the Companies Act, where requested by either a member or members meeting the threshold requirements set out in section 527 of that Chapter 5, the Company must publish on its website a statement setting out any matter that such member or members propose(s) to raise at the Meeting relating to the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the Meeting.

Where the Company is required to publish such a statement on its website, it may not require the members making the request to pay any expenses incurred by the Company in complying with the request, it must forward the statement to the Company's auditors no later than the time the statement is made available on the Company's website and the statement may be dealt with as part of the business of the Meeting.

- 17 A member may not use any electronic address provided either in this notice or in any related documents to communicate with the Company for any purpose other than those expressly stated in this notice or in such other related documents.