Building confidence

Kier Group plc

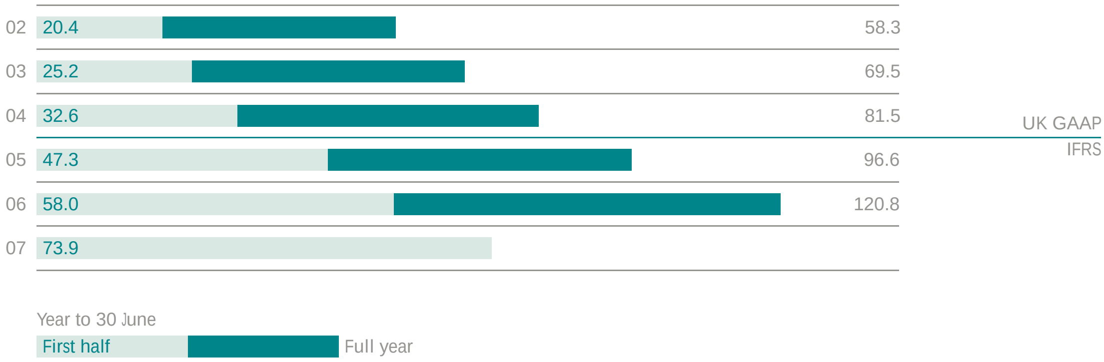
Interim Report and Accounts for the six months ended 31 December 2006

Contents

Group Highlights

Earnings per share (pence)

(Excluding exceptional items)



+10.6%

Revenue

Revenue up 10.6% to £1,020.5m (2005: £922.6m)

+27.5%

Pre-tax profit

Pre-tax profit up 27.5% to £36.2m (2005: £28.4m)

+27.4%

Earnings per share

Earnings per share up 27.4% to 73.9p (2005: 58.0p)

Chief executive's interim statement

Overview

I am pleased to report that Kier Group plc has delivered another strong set of results for the six months to 31 December 2006 in a busy period that has seen record levels of revenue in each of our principal divisions: Construction, Support Services and Homes.

Our businesses are continuing to flourish, benefiting from public sector spending in Construction and Support Services, continued demand for housing in Homes and a sustained appetite by investors for good quality properties at excellent yields in our Property division. Our Construction order book at 28 February 2007 is robust at £1,196m; in Support Services the two recent major building maintenance contract wins in Harlow and Sefton have contributed to a record order book of £1,589m at 28 February 2007 and in Homes, activity in our markets has been encouraging, resulting in our order books at 28 February 2007 being over 50% ahead of last year. In Property, opportunity remains plentiful and we were pleased to achieve financial close on a large project for Ordnance Survey earlier this month.

Financial results

Revenue for the six months to 31 December 2006 was at a record £1,020.5m (2005: £922.6m) and 10.6% ahead of last year; operating profit after the amortisation of intangible assets and joint venture interest and tax was 26.9% ahead at £36.3m (2005: £28.6m) and pre-tax profit was 27.5% ahead at £36.2m (2005: £28.4m) benefiting from growth across all divisions, particularly Property, where the majority of property sales targeted for the financial year have been achieved in the first half. Earnings per share, adjusted for the amortisation of intangibles, increased by 26.3% to 75.8p (2005: 60.0p).

The results for the period are underpinned by strong cash balances, with £44.7m generated from operating activities (2005: £43.4m). Net funds at 31 December 2006 were £114.4m, compared with £111.2m at 30 June 2006 and £87.6m at 31 December 2005. The Construction division maintained strong cash balances in the period on average £47m ahead of last year and generated £23.7m in the six month period.

The Board has declared an interim dividend of 9.6p (2005: 8.2p), an increase of 17.1% on last year continuing the growth record of 15% or more per annum achieved since 1997. The dividend is 7.7 times covered by earnings per share and will be paid to shareholders on 18 May 2007 with the usual scrip alternative.

Construction

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

Overall revenue increased by 11.8% to £675.2m (2005: £603.7m) with good growth in both Kier Regional and Kier Construction. Operating profit increased by 15.9% to £9.5m (2005: £8.2m), maintaining the operating margin at 1.4% (2005: 1.4%). The order book at 28 February 2007 was £1,196m (2006: £1,057m) supported by a strong pipeline of orders which are close to being confirmed, leading us to expect overall volume growth for the year.

Kier Regional continues to see improvements in its key performance measures of revenue, profit margins and cash. It started the new financial year with a high level of orders on hand which converted to a record level of revenue in the six months to 31 December 2006. Margins have continued to improve across the business and the cash performance remains strong with average cash balances around £40m higher than the same period last year, ending the period at a record £262.4m (2005: £224.5m).

Orders have remained strong throughout the period at £581m (2005: £493m) with 49% arising from public sector clients (2005: 50%). Education continues to be an important sector for us and we were delighted to have been selected as one of six preferred contractors on the 'Contractors' Framework for Academies and other educational facilities' which is forecast to provide £1.7bn of work, in total, over the next four years. Our framework agreement with the Home Office for custodial contracts is affording us good opportunities providing 14% of awards in the period with a significant level of additional contracts in negotiation. The affordable housing sector, to which we anticipate providing around 1,000 units this year, is also buoyant presenting good prospects through our framework agreements with housing associations and local authorities.

Private sector demand has also been strong in the six months under review, particularly in the commercial property sector, which has provided 25% of the awards for the period, including a £66m office development in Snow Hill, Birmingham, for our major projects business. 65% of our total awards (2005: 59%) for the period were negotiated or awarded through two-stage tenders, reflecting our continued focus on partnering and repeat business.

Kier Construction has had mixed fortunes in the period. In the UK good progress is being made on the LNG terminal in Milford Haven for South Hook LNG, despite poor weather during most of December and January, and land remediation projects for the Homes and Property divisions have been completed on time and, more importantly for such projects, within budgets. Our private opencast coal mine at Greenburn, East Ayrshire, continues to make good progress with over 1.5m tonnes of coal extracted since production began in April 2004. 68% of the remaining 1.8m tonnes from the original deposit has been forward sold at fixed prices and we are delighted to report that our planning application for a further 0.8m tonnes has now been approved, which will extend the life of the mine by a further two years to 2011.

Overseas, good progress made in Jamaica on the Norman Manley International Airport and on a large transportation centre has been overshadowed by difficulties with a hotel project for Sandals in Antigua having an adverse impact on profitability for that region.

Support Services

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

Overall revenue increased by 2.6% to £142.7m (2005: £139.1m) with 22.5% growth in Kier Building Maintenance offset by a planned reduction in Kier Managed Services. Operating profit, before deducting the amortisation of intangibles of £1.0m (2005: £1.0m), increased by 30.8% to £5.1m (2005: £3.9m) at an improved margin of 3.5% (2005: 2.8%).

In Kier Managed Services our focus on improving the quality of contracts has been effective. Volumes have declined over the period but profitability has improved providing us with a sound base from which to grow the business.

Kier Building Maintenance has made excellent progress in the last six months. Revenue is up from £80.8m to £99.0m and order books have grown significantly benefiting from £232m of new orders from two major contract awards in the period; Harlow and Sefton. At Harlow we commenced work on 1 February 2007 on a £17m per annum seven-year contract, extendable by a further three years, in partnership with Harlow District Council. We will provide environmental services, including street cleaning, as well as managing all the repairs for the Council's 10,000 property stock. At Sefton, Merseyside, we are about to commence work on a four-year outsourcing contract for One-Vision Housing valued at £62m which involves upgrading 5,600 council properties to the Government's Decent Homes standard.

We have also recently been selected as preferred bidder on a five-year outsourcing contract for Kingston-upon-Hull District Council valued at £83m which will involve repairs and maintenance and Decent Homes work on 10,000 council properties.

Many more opportunities are available to us in this market including a ten-year £30m per annum repair and maintenance contract for Stoke-on-Trent City Council on which we are short-listed as one of two bidders. At Harrow we are short-listed on a £17m per annum contract for five years and at Hackney we are short-listed on a £13m per annum four-year contract.

Homes

Kier Residential, our housebuilding division, is structured through five companies: Allison Homes, operating throughout Lincolnshire and North Cambridgeshire; Bellwinch Homes, with sites in the south and south east; Kier Homes, operating across the central belt of Scotland; Twigden Homes with activities in East Anglia and the West Midlands; and the recently acquired Hugh Bourn Homes operating in North Lincolnshire.

Kier Residential sold 819 homes in the six months to 31 December 2006, a 15.5% increase over 2005's 709 homes but with a greater proportion of affordable homes than ever before at 20.9% of total sales (2005: 11.0%). Revenue for the six months at £151.8m was 12.6% ahead of last year's £134.8m including land sales of £8.3m (2005: £3.0m) with the high proportion of affordable housing, together with the inclusion of sales from Hugh Bourn Homes, reducing average selling prices to £175,200 (2005: £185,900).

Operating profit increased marginally to £20.4m (2005: £19.8m) including £0.2m relating to land sales (2005: £0.3m) giving a margin on housing sales of 14.1% (2005: 14.8%), slightly lower than our 15.0% target with the high number of affordable housing sales having an impact.

On 31 July 2006 we acquired the shares in Hugh Bourn Developments (Wragby) Limited for a total consideration of £53.3m, representing the market value of land, work in progress and other assets and liabilities. £20m was paid on completion, with the balance due in instalments on 2 July 2007 and 1 July 2008. Hugh Bourn Homes (rebranded Kier Homes Northern) has formed the foundation for a fifth trading division of Kier Residential, expanding its reach to the north of Allison Homes' operating area. It contributed 54 units to sales in the period since acquisition.

The land bank at 31 December 2006 contained 7,004 plots with planning consent (2005: 5,618) including 1,151 in Hugh Bourn Homes. A number of large sites on which we are progressing detailed planning consent have recently been acquired including 192 units at Costessey, Norfolk, 245 units at Redding Park in the central belt of Scotland and 213 units at Little Paxton, Cambridgeshire. In addition to the land with planning consent the land bank also contains a further 11,800 plots of strategic land, mostly under option.

There is continued demand for homes in the markets in which we operate. Weekly reservation rates are in line with those required in order to achieve our full year projection with recent interest rate increases having no discernable effect. Our order books are over 50% ahead of last year (43% excluding Hugh Bourn Homes) and completions to the end of February combined with our order book for the current year secure over 80% of our projected unit sales for the year.

Looking forward to the full year we are expecting to see a similar pattern to the distribution of unit sales as last year, with a bias towards the second half of the year. The exceptional level of affordable housing units experienced in the first half of the year is expected to reduce over the whole year to a level similar to that achieved in the full year to 30 June 2006.

Property

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

Chief executive's interim statement continued

The Property division had an extremely busy six months to 31 December 2006 with the majority of the development sales targeted for this financial year taking place in this period. Revenue for the six months of £43.5m (2005: £38.3m) was 13.6% ahead of last year with operating profits 70.4% ahead at £9.2m (2005: £5.4m), before joint venture interest and tax, representing a margin of 21.1% (2005: 14.1%).

Within our wholly owned business we sold a retail park at Haverhill during the period and made good progress on the development of offices pre-let to Electronic Data Systems in Milton Keynes where Kier is also the contractor. In our joint venture with the Bank of Scotland a number of developments were sold including two to Invista Real Estate: Mannington Retail Park in Swindon; and Reading Central, a commercial site in the centre of Reading. We have retained a 50% equity stake in Mannington Retail Park and will be involved in its future development. We are also planning to enter into a joint venture development agreement with Invista to redevelop the Reading Central site.

Earlier this month we reached financial close on a project to develop a new corporate headquarters for Ordnance Survey in Southampton. This will include the residential and commercial redevelopment of their existing site with participation from our Construction, Support Services and Homes divisions. We were also pleased to have been selected as preferred developer on a project to deliver the UK's first Supreme Court in Parliament Square, London. Kier Property and Kier Regional (Wallis) are working together to remodel a 70,000sq ft listed building which, on completion of the development, will be leased to the Department of Constitutional Affairs for 30 years.

Our ability to provide a 'total solution' to clients including land remediation, mixed-use development (residential and commercial) and affordable housing continues to provide a flow of interesting opportunity to this division.

Infrastructure Investment

Kier Project Investment (KPI) manages the Group's interests procured under the Private Finance Initiative (PFI). The core strength of KPI is the ability to bring together the diverse range of skills and resources within the Group and combine these with a financial package that will deliver high quality buildings and services to meet the public sector's needs.

In July 2006 we achieved financial close on a contract to provide a new headquarters building in Gravesend for Kent Police bringing our total committed equity in PFI projects to £22.8m on which we expect to achieve an average yield of around 14%. Construction was also successfully completed on two secondary schools in Sheffield to add to the two completed last year and Kier Managed Services has now commenced facilities management operations. Good construction progress is being made on a number of schools for Oldham Metropolitan Council and Norfolk County Council and on the Garrett Anderson Health Centre at Ipswich, all by Kier Regional.

With PFI health projects slowing down and schools largely being provided under 'Building Schools for the Future' we are exploring new markets including fire stations, social housing and prisons, all areas in which our Construction division has a great deal of experience.

Pensions

At 31 December 2006 the net pension deficit calculated as required by IAS 19 'Employee Benefits' is £28.9m (December 2005: £93.0m, June 2006: £42.1m). The improvement in the period is attributable to: special contributions amounting to £31.5m in the six months to 30 June 2006 and £8.0m in the six months to 31 December 2006; and an increase in the market value of assets. We continue to make special contributions of £0.5m per month into the Kier Group Pension Scheme, over and above our normal contributions. We are determined that Kier's pension deficit will continue to reduce.

Health & Safety

Kier Group's attention to behavioural issues affecting safety on sites has increased the focus of both employees and members of the supply chain on improving standards and an understanding of what is needed to ensure safe sites. This initiative has resulted in an Accident Incidence Rate of 492 per 100,000 staff and subcontractors measured against a Health & Safety Executive (HSE) target rate of 902 per 100,000. The HSE target for 2007 is set at 946.

People

Our successful track record is the tangible result of the skill, professionalism, enthusiasm and commitment of our people. They have ensured that we have achieved consistent growth in revenue, profits and cash flow and that we continue to excel in all of our chosen markets. I wish to pay tribute to all Kier employees for their enduring hard work and dedication which have contributed to the continued success of the Group.

Prospects

The prospects for Kier Group are excellent. There continues to be ample opportunity in all of the markets in which we operate, our order books are full, our balance sheet is strong and we have very capable management teams in place. All of this leads me to anticipate further profitable growth.

John Dodds
Chief Executive
16 March 2007

Consolidated income statement

	Notes	Unaudited 6 months to 31 December 2006 £m	Unaudited 6 months to 31 December 2005 £m	Year to 30 June 2006 £m
Revenue - continuing operations				
Group and share of joint ventures	2	1,020.5	922.6	1,838.3
Less share of joint ventures		(40.7)	(41.3)	(55.1)
Group revenue		979.8	881.3	1,783.2
Cost of sales		(889.4)	(804.0)	(1,623.7)
Gross profit		90.4	77.3	159.5
Administrative expenses		(55.9)	(50.0)	(103.5)
Share of post tax profits from joint ventures		1.8	1.3	3.2
Profit from operations	2	36.3	28.6	59.2
Finance income		3.3	2.7	5.3
Finance cost		(3.4)	(2.9)	(5.4)
Profit before tax	2	36.2	28.4	59.1
Taxation	3	(9.9)	(7.8)	(16.2)
Profit for the period		26.3	20.6	42.9
Earnings per ordinary share				
- basic	5	73.9p	58.0p	120.8p
- diluted		72.9p	57.5p	118.8p
Adjusted earnings per ordinary share (excluding the amortisation of intangible assets)				
- basic	5	75.8p	60.0p	124.8p
- diluted		74.8p	59.5p	122.7p

Consolidated statement of recognised income and expense

	Notes	Unaudited 6 months to 31 December 2006 £m	Unaudited 6 months to 31 December 2005 £m	Year to 30 June 2006 £m
Foreign exchange translation differences		-	-	(0.3)
Fair value movements in cash flow hedging instruments		-	(0.5)	4.1
Actuarial gains and losses on defined benefit pension schemes		10.2	(10.8)	30.0
Deferred tax on items recognised directly in equity		(3.1)	3.4	(10.2)
Net expense recognised directly in equity		7.1	(7.9)	23.6
Profit for the period		26.3	20.6	42.9
Total recognised income and expense for the period		33.4	12.7	66.5
Effect of change in accounting policy				
Adoption of IAS 32 and IAS 39, net of tax, on 1 July 2005 on cash flow hedge reserve		-	(7.5)	(7.5)
Deferred tax on above		-	2.2	2.2
		33.4	7.4	61.2

Consolidated balance sheet

	Notes	Unaudited 31 December 2006 £m	Unaudited 31 December 2005 £m	30 June 2006 £m
Non-current assets				
Intangible assets		13.8	15.7	14.8
Property, plant and equipment		80.3	71.8	78.5
Investment in joint ventures		28.0	17.4	20.8
Retirement benefit surplus		6.8	4.6	6.8
Deferred tax assets		14.4	42.9	20.9
Other financial assets		0.2	0.7	0.6
Trade and other receivables		17.4	12.1	16.1
Non-current assets		160.9	165.2	158.5
Current assets				
Inventories		443.3	369.1	377.8
Other financial assets		0.3	0.4	0.6
Trade and other receivables		258.7	254.9	258.4
Cash and cash equivalents		144.6	117.8	141.3
Current assets		846.9	742.2	778.1
Total assets		1,007.8	907.4	936.6
Current liabilities				
Bank overdrafts and loans		-	(0.1)	-
Trade and other payables		(700.1)	(600.6)	(670.5)
Tax liabilities		(3.3)	(11.4)	(2.7)
Provisions		(1.2)	(1.0)	(0.9)
Current liabilities		(704.6)	(613.1)	(674.1)
Non-current liabilities				
Interest-bearing loans and borrowings		(30.2)	(30.1)	(30.1)
Other payables		(51.3)	(50.8)	(36.8)
Retirement benefit obligations		(48.1)	(137.5)	(67.0)
Provisions		(21.4)	(19.1)	(18.1)
Deferred tax liabilities		(12.7)	(1.4)	(2.0)
Non-current liabilities		(163.7)	(238.9)	(154.0)
Total liabilities		(868.3)	(852.0)	(828.1)
Net assets	2	139.5	55.4	108.5
Equity				
Share capital		0.4	0.4	0.4
Share premium		22.7	19.6	20.0
Capital redemption reserve		2.7	2.7	2.7
Retained earnings		116.3	38.3	88.0
Cash flow hedge reserve		(2.4)	(5.6)	(2.4)
Translation reserve		(0.2)	-	(0.2)
Total equity	6	139.5	55.4	108.5

Consolidated cash flow statement

		Unaudited 6 months to 31 December 2006 £m	Unaudited 6 months to 31 December 2005 £m	Year to 30 June 2006 £m
Cash flows from operating activities				
Profit before tax		36.2	28.4	59.1
Adjustments	Share of post tax profits from joint ventures	(1.8)	(1.3)	(3.2)
	Normal contributions to pension fund in excess of pension charge	(0.7)	0.2	(0.2)
	Share-based payments charge	1.6	0.4	1.1
	Amortisation of intangible assets	1.0	1.0	1.9
	Depreciation charges	7.3	6.1	13.5
	Profit on disposal of property, plant & equipment	(0.3)	(1.2)	(1.1)
	Net finance cost	0.1	0.2	0.1
Operating cash flows before movements in working capital		43.4	33.8	71.2
Special contributions to pension fund		(8.0)	-	(31.5)
Increase in inventories		(2.8)	(40.5)	(49.3)
Increase in receivables		(1.4)	(18.7)	(26.7)
Increase in payables		10.1	66.3	131.8
Increase in provisions		3.4	2.5	1.1
Cash inflow from operating activities		44.7	43.4	96.6
Interest received		3.1	2.5	5.3
Income taxes paid		(7.4)	(6.5)	(11.3)
Net cash generated from operating activities		40.4	39.4	90.6
Cash flows from investing activities				
Proceeds from sale of property, plant & equipment		0.9	4.2	4.6
Proceeds from sale of investments		-	-	1.4
Dividends received from joint ventures		0.5	1.0	1.3
Purchases of property, plant & equipment		(7.7)	(8.0)	(23.2)
Acquisition of subsidiaries		(20.0)	-	(10.1)
Investment in joint ventures		(5.4)	(0.6)	(0.6)
Net cash used in investing activities		(31.7)	(3.4)	(26.6)
Cash flows from financing activities				
Purchase of own shares		(0.4)	(1.5)	(2.0)
Interest paid		(1.3)	(1.3)	(2.7)
Dividends paid		(3.7)	(3.7)	(6.2)
Net cash used in financing activities		(5.4)	(6.5)	(10.9)
Net increase in cash and cash equivalents		3.3	29.5	53.1
Opening net cash and cash equivalents		141.3	88.2	88.2
Closing net cash and cash equivalents		144.6	117.7	141.3
Reconciliation of net cash flow to movement in net funds				
Net increase in cash and cash equivalents		3.3	29.5	53.1
Increase in long-term borrowings		(0.1)	-	-
Opening net funds		111.2	58.1	58.1
Closing net funds		114.4	87.6	111.2
Net funds consist of:				
Cash and cash equivalents		144.6	117.8	141.3
Overdrafts		-	(0.1)	-
Net cash and cash equivalents		144.6	117.7	141.3
Long-term borrowings		(30.2)	(30.1)	(30.1)
Net funds		114.4	87.6	111.2

1 Basis of preparation

This interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 30 June 2006.

The interim financial information in this statement does not constitute statutory accounts, as defined in section 240 of the Companies Act 1985. The auditors' report on the statutory accounts for the year to 30 June 2006 was unqualified and did not contain a statement under section 237 of the Companies Act 1985. Statutory accounts for the year to 30 June 2006 have been delivered to the Registrar of Companies. The interim financial statements were approved by the Board of Directors on 16 March 2007. The preparation of the interim financial statements requires management to make assumptions and estimates about future events which are uncertain, the actual outcome of which may result in a materially different outcome from that anticipated.

2 Segmental analysis

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

	Construction £m	Support Services £m	Homes £m	Property £m	Infrastructure Investment £m	Centre £m	Group £m
Six months to 31 December 2006							
Revenue							
Group and share of joint ventures	675.2	142.7	151.8	43.5	7.3	-	1,020.5
Less share of joint ventures	-	-	-	(34.1)	(6.6)	-	(40.7)
Group revenue	675.2	142.7	151.8	9.4	0.7	-	979.8
Profit							
Group operating profit	9.5	4.1	20.4	5.6	(0.3)	(4.8)	34.5
Share of joint ventures' operating profit	-	-	-	3.6	0.8	-	4.4
Group and share of joint ventures	9.5	4.1	20.4	9.2	0.5	(4.8)	38.9
Share of joint ventures - finance cost	-	-	-	(1.2)	(0.5)	-	(1.7)
- tax	-	-	-	(0.7)	(0.2)	-	(0.9)
Profit from operations	9.5	4.1	20.4	7.3	(0.2)	(4.8)	36.3
Finance income/(cost)	7.8	-	(6.9)	(0.7)	0.7	(1.0)	(0.1)
Profit before tax	17.3	4.1	13.5	6.6	0.5	(5.8)	36.2
Balance sheet							
Total assets	275.2	76.7	425.3	48.6	4.0	33.4	863.2
Total liabilities	(516.2)	(82.8)	(138.6)	(5.9)	(4.6)	(90.0)	(838.1)
Net operating assets/(liabilities)	(241.0)	(6.1)	286.7	42.7	(0.6)	(56.6)	25.1
Cash, net of debt	322.4	17.8	(163.0)	(23.8)	(5.7)	(33.3)	114.4
Net assets	81.4	11.7	123.7	18.9	(6.3)	(89.9)	139.5

	Construction £m	Support Services £m	Homes £m	Property £m	Infrastructure Investment £m	Centre £m	Group £m
Six months to 31 December 2005							
Revenue							
Group and share of joint ventures	603.7	139.1	134.8	38.3	6.7	-	922.6
Less share of joint ventures	(2.7)	-	-	(32.1)	(6.5)	-	(41.3)
Group revenue	601.0	139.1	134.8	6.2	0.2	-	881.3
Profit							
Group operating profit	8.0	2.9	19.8	2.9	(0.9)	(5.4)	27.3
Share of joint ventures' operating profit	0.2	-	-	2.5	0.7	-	3.4
Group and share of joint ventures	8.2	2.9	19.8	5.4	(0.2)	(5.4)	30.7
Share of joint ventures - finance cost	-	-	-	(1.0)	(0.3)	-	(1.3)
- tax	-	-	-	(0.6)	(0.2)	-	(0.8)
Profit from operations	8.2	2.9	19.8	3.8	(0.7)	(5.4)	28.6
Finance income/(cost)	6.8	(0.5)	(6.4)	(0.3)	0.5	(0.3)	(0.2)
Profit before tax	15.0	2.4	13.4	3.5	(0.2)	(5.7)	28.4
Balance sheet							
Total assets	252.2	77.7	357.7	41.8	(3.1)	63.3	789.6
Total liabilities	(452.6)	(76.5)	(103.9)	(8.1)	(2.6)	(178.1)	(821.8)
Net operating assets/(liabilities)	(200.4)	1.2	253.8	33.7	(5.7)	(114.8)	(32.2)
Cash, net of debt	278.3	8.6	(187.7)	(19.0)	(4.5)	11.9	87.6
Net assets	77.9	9.8	66.1	14.7	(10.2)	(102.9)	55.4
Year to 30 June 2006							
Revenue							
Group and share of joint ventures	1,218.1	281.3	277.9	47.5	13.5	-	1,838.3
Less share of joint ventures	(2.6)	-	-	(40.0)	(12.5)	-	(55.1)
Group revenue	1,215.5	281.3	277.9	7.5	1.0	-	1,783.2
Profit							
Group operating profit	17.2	6.8	41.6	4.2	(2.1)	(11.7)	56.0
Share of joint ventures' operating profit	0.8	-	-	5.0	1.4	-	7.2
Group and share of joint ventures	18.0	6.8	41.6	9.2	(0.7)	(11.7)	63.2
Share of joint ventures - finance cost	-	-	-	(2.1)	(0.5)	-	(2.6)
- tax	(0.1)	-	-	(0.8)	(0.5)	-	(1.4)
Profit from operations	17.9	6.8	41.6	6.3	(1.7)	(11.7)	59.2
Finance income/(cost)	13.7	(0.5)	(13.1)	(0.9)	1.2	(0.5)	(0.1)
Profit before tax	31.6	6.3	28.5	5.4	(0.5)	(12.2)	59.1
Balance sheet							
Total assets	281.3	77.3	351.1	44.6	(0.1)	41.1	795.3
Total liabilities	(496.6)	(78.2)	(112.3)	(5.2)	(3.2)	(102.5)	(798.0)
Net operating assets/(liabilities)	(215.3)	(0.9)	238.8	39.4	(3.3)	(61.4)	(2.7)
Cash, net of debt	298.7	12.5	(165.8)	(23.8)	(3.8)	(6.6)	111.2
Net assets	83.4	11.6	73.0	15.6	(7.1)	(68.0)	108.5

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

3 Taxation

The taxation charge for the six months ended 31 December 2006 has been calculated at 29% (June 2006 29%, December 2005 29.5%) of underlying profit before tax, being profits adjusted for the Group's share of tax in equity accounted joint ventures. This represents the estimated effective rate of tax for the year.

	Unaudited 31 December 2006 £m	Unaudited 31 December 2005 £m	30 June 2006 £m
Profit before tax	36.2	28.4	59.1
Add: tax on joint ventures	0.9	0.8	1.4
Underlying profit before tax	37.1	29.2	60.5
Tax charge	9.9	7.8	16.2
Add: tax on joint ventures	0.9	0.8	1.4
Underlying tax charge	10.8	8.6	17.6
Rate	29%	29.5%	29%

4 Dividends

Amounts recognised as distributions to equity holders in the period.

	Unaudited 31 December 2006 £m	Unaudited 31 December 2005 £m	30 June 2006 £m
Final dividend for the year ended 30 June 2006 of 17.8 pence (2005: 15.2 pence)	6.3	5.4	5.4
Interim dividend for the year ended 30 June 2006 of 8.2 pence	-	-	2.9
	6.3	5.4	8.3

The proposed interim dividend of 9.6 pence (2006: 8.2 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £3.5m will be paid on 18 May 2007 to shareholders on the register at the close of business on 30 March 2007. A scrip dividend alternative will be offered.

5 Earnings per share

	Unaudited 31 December 2006 £m	Unaudited 31 December 2005 £m	30 June 2006 £m
Profit after tax	26.3	20.6	42.9
Add: amortisation of intangible assets	1.0	1.0	1.9
Less: tax on the amortisation of intangible assets	(0.3)	(0.3)	(0.5)
Adjusted profit after tax	27.0	21.3	44.3
	million	million	million
Weighted average number of shares used for EPS			
- basic	35.6	35.5	35.5
- diluted	36.1	35.8	36.1
	pence	pence	pence
Earnings per share			
- basic	73.9	58.0	120.8
- diluted	72.9	57.5	118.8
Adjusted earnings per share after excluding the amortisation of intangible assets			
- basic	75.8	60.0	124.8
- diluted	74.8	59.5	122.7

6 Reconciliation of changes in total equity

	Unaudited 31 December 2006 £m	Unaudited 31 December 2005 £m	30 June 2006 £m
Opening shareholders' equity	108.5	52.8	52.8
Adjustments on adoption of IAS 32 and IAS 39 on 1 July 2005 (net of tax)	-	(5.3)	(5.3)
Restated opening shareholders' equity	108.5	47.5	47.5
Recognised income and expense for the period	33.4	12.7	66.5
Dividends paid	(6.3)	(5.4)	(8.3)
Issue of own shares	2.7	1.7	2.1
Purchase of own shares	(0.4)	(1.5)	(2.0)
Share-based payments charge	1.6	0.4	1.1
Deferred tax on share-based payments	-	-	1.6
Closing shareholders' equity	139.5	55.4	108.5

Independent review report to Kier Group plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 December 2006 which comprises the income statement, the balance sheet, statement of recognised income and expense and cash flow statement. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 Review of interim financial information issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2006.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

16 March 2007

Principal operating businesses

Construction

Kier Regional Limited
Kier Build
Kier Eastern
Kier London
Kier Northern
Kier North West
Kier Partnership Homes Limited
Kier Scotland
Kier South East
Kier Southern
Kier Western
Marriott Construction
Moss Construction

Kier Construction Limited

Support Services

Kier Support Services Limited
Kier Building Maintenance
Kier Building Services Engineers
Kier Engineering Services
Kier Islington Limited
Kier Managed Services Limited
Kier Plant Limited
Kier Sheffield LLP

Homes

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

Property

Kier Property Limited
Kier Developments Limited
(50% owned)
Kier Ventures Limited

Infrastructure Investment

Kier Project Investment Limited

Group Services

Kier Limited

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M O'Farrell
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