News Release

16 March 2006

KIER GROUP PLC

INTERIM RESULTS FOR THE SIX MONTHS TO 31 DECEMBER 2005

- Pre-tax profits* before exceptional items up 19.8% to £28.4m (2004: £23.7m)
- EPS before exceptional items up 22.6% to 58.0p (2004: 47.3p)
- Dividend increased by 17.1% to 8.2p (2004: 7.0p)
- £39.4m of cash generated from operating activities
- Construction and Support Services order books at strong levels
- Homes order book 50% ahead of last year with over 90% of projected full year unit sales secure

*Pre-tax profits are after deducting joint venture tax of £0.8m (2004: £0.3m)

Commenting on the results, John Dodds, Chief Executive, said:

Excellent prospects for growth arise out of all our markets. The construction market is continuing to benefit from government spending evidenced by the increasing proportion of work we are being awarded for public sector clients. In Support Services there is a growing number of local authority outsourcing contracts available to bid which we are in a strong position to pursue. In Homes, visitor and reservation levels are showing signs of a more active market which, should they continue, would lead to material growth in unit sales for the full year. Our Property business is attracting a wide range of new developments including mixed-use schemes and in PFI our pipeline and track record of awards will provide further growth.

Our businesses are working ever better together to provide a total solution to clients' increasingly complex requirements.

Chief executive's review

Overview

I am pleased to report that Kier Group has delivered another excellent set of results for the six months to 31 December 2005. Our Group, with its well balanced portfolio of businesses, has become a major force in each of the sectors of Construction, Support Services, Homes, Property and Infrastructure Investment. This six month period has seen further substantial progress in establishing Kier as a fully integrated business able to provide a total solution to clients through a multi-disciplinary offering.

The strength of our business has enabled us to report continued revenue growth of 14.5% for the six months to 31 December 2005, with pre-tax profits before exceptional items up 19.8% on last year.

The markets across all of our sectors have remained strong. Our Construction order books have continued to benefit from public sector expenditure maintaining our previously established record level of outstanding orders at £1,030m. In Support Services the order book stands at £1,309m (2004: £1,137m) and as the list of local authority outsourcing contracts available to bid continues to grow we are in a strong position to pursue many of them. The housing market in the run up to Christmas showed positive signs with reservations at good levels; activity since Christmas has been very encouraging resulting in our order books at 28 February 2006 being 50% ahead of the previous year.

Opportunities continue to emerge for our Property development business and we were pleased to complete the purchase of a portfolio of nine properties, including one residential scheme, from Warner Estates in December 2005. Our PFI business continues its successful run having achieved preferred bidder status on a schools project in Oldham, our fifth project in the education sector.

With a good start to the second half of the financial year and plenty of exciting opportunities available we are firmly on track to deliver year on year growth for the full year.

Financial results

These results are the Group's first to be prepared under International Financial Reporting Standards (IFRS). The new standards have no impact on the profit recognition policies for Construction and Support Services and only a minor impact on Homes and Property. The significant impact arising from the introduction of IFRS is on the Group's balance sheet which now includes the net pension deficit arising from our defined benefit pension scheme calculated in accordance with IAS 19.

Revenue, including the Group's share of joint ventures, at £922.6m, (2004: £805.6m) was 14.5% ahead of last year; operating profit after the amortisation of intangible assets and joint venture interest and tax was 16.3% ahead at £28.6m (2004: £24.6m); and pre-tax profit at £28.4m (2004: £23.7m) was 19.8% ahead of last year (before last year's exceptional profits of £5.9m).

Adjusted earnings per share before last year's exceptional profits and tax increased by 22.6% to 58.0p (2004: 47.3p).

The trading result achieved in the six months to 31 December 2005 was supported by strong cash generation. Overall there was a £29.5m inflow in the period resulting in a cash balance of £87.6m, net of debt, at 31 December 2005 (2004: £70.2m) with £39.4m generated from operating activities. The Construction division maintained strong cash balances in the period, on average, £50m ahead of last year and generated £20m in the six month period.

The Board has declared an interim dividend of 8.2p (2004: 7.0p), an increase of 17.1% continuing the growth record of 15% per annum or more achieved since 1997. This is 7.1 times covered by earnings per share. The dividend will be paid to shareholders on 18 May 2006 with the usual scrip alternative.

Construction

The Construction segment comprises Regional Contracting, which also includes both Affordable Housing and Major Building Projects, and our Infrastructure & Overseas operations. Our plant hire operation, previously included within the Construction segment, has been transferred to Support Services with effect from 1 July 2005 with comparative results restated.

Overall revenue increased by 15.1% to £603.7m (2004: £524.5m) with the growth largely arising in our Regional Contracting business. Operating profit, before joint venture interest and tax, increased by 41.4% to £8.2m (2004: £5.8m) resulting in an operating margin for the period of 1.4% (2004: 1.1%). The order book at 31 December 2005 was maintained at the June 2005 level of £1,030m (2004: £600m) supported by a strong pipeline of virtually secure work leading us to anticipate volume growth overall for the year.

Our Regional Contracting business continues to go from strength to strength. A good trading result was supported by an excellent cash performance in the period on average £37m ahead of last year and ending the period at a record £224.5m (2004: £189.1m). Orders remained strong throughout the period at £493m (2004: £391m) with 50% arising from public sector clients (2004: 37%) largely driven by education and affordable housing projects. The proportion of two-stage tender and negotiated contracts rose to 59% of total awards (2004: 57%) reflecting our continued focus on partnering and repeat business.

In the UK, Kier Construction, our Infrastructure & Overseas division, has successfully completed its second waste management facility in a developing relationship with Shanks Waste Services and further opportunities are being pursued. Our framework agreements with United Utilities and Network Rail are both progressing satisfactorily albeit at lower initial volumes than first anticipated. Our private opencast coal mine in Scotland continues to perform well and we were recently awarded 'Opencaster of the Year' by McCloskey's Coal UK. Nearly one million tonnes of coal have been mined to date and we have taken advantage of strong coal prices by locking into a number of fixed price coal contracts covering over 58% of the remaining identified deposit.

Overseas our long-term relationship with Alcoa continues to bear fruit particularly in Jamaica where we have started construction on a new railway and residue lakes together with the early works programme for a major expansion of their alumina refinery. We have also been awarded a contract for the expansion of Norman Manley Airport in Kingston.

Support Services

Overall revenue increased by 22.1% to £139.1m (2004: £113.9m) with operating profit moving forward from £3.2m to £3.9m (before deducting the amortisation of intangibles of £1.0m in each of the periods) at a margin of 2.8% (2004: 2.8%).

In the Managed Services division our portfolio of contracts on which we provide services under the PFI is continuing to expand with a further £128m either awarded or on which we were selected as preferred bidder in the six months to 31 December 2005.

Good results were achieved by the Building Maintenance division which now looks after around 160,000 homes for local authority clients including Sheffield City Council, Islington Borough Council and Leeds City Council. Revenue increased from £63.5m to £80.8m largely due to the inclusion of Decent Homes work and the Leeds contract which was awarded last year. We have recently secured a five year contract for the City of Lincoln which will provide £7m of revenue per annum under the Decent Homes initiative. A strong bid list is emerging in the £10m to £40m per annum revenue range and, with our proven ability to fulfil these higher value contracts, we are well placed to secure further work in this arena.

Homes

The results for the year to 30 June 2005 reflected a shift in the balance of unit sales towards the first half of the year with 721 units completed in the six months to 31 December 2004 out of a total of 1,215 units for the year. This financial year is expected to show a more balanced picture with 709 units completed in the six months to 31 December 2005 and significant year on year growth in unit sales targeted for the full year. Revenue for the six months to 31 December 2005 at £134.8m was marginally ahead of last year's £134.5m including land sales of £3.0m (2004: £4.4m). Average selling prices increased to £185,900 (2004: £180,500) which reflects the mix of unit sales despite a slight increase in the number of affordable housing units from 10% to 11% of total unit sales.

Operating profit increased marginally to £19.8m (2004: £19.6m) including £0.3m relating to land sales (2004: £nil) giving a margin on housing sales of 14.8% (2004: 15.1%).

The land bank at 31 December 2005 included 5,618 plots with planning consent (2004: 5,256 plots) representing over four years' worth of sales at 2005 levels. A number of large sites on which we are progressing detailed planning consent have recently been acquired including 292 units at Stoke Mandeville and 375 units in Cringleford. Final negotiations have concluded which will allow detailed planning consent to be granted on a 550 unit former Anglian Water site at Peterborough where Kier Construction has started remediation. In addition to the land with planning consent the land bank also contains a further 11,000 plots of strategic land, the majority of which are held under option.

The demand for our homes is showing positive signs with both visitor and reservation levels well ahead of last year and a reduced level of incentives required. At 28 February 2006 the order book of reservations and exchanged contracts was 50% ahead of the same time last year and, together with completions for the current year, secure over 90% of projected unit sales for the year.

Property

The Property segment recorded operating profit of £5.4m for the period, 45.9% ahead of last year's £3.7m.

Within our wholly owned business we recently secured a site for 150,000sq ft of offices pre-let to EDS in Milton Keynes on which Kier Regional is carrying out the construction. In December 2005 we acquired nine development properties from Warner Estates, part of their Ashtenne portfolio. One of the properties has been transferred internally to Kier Residential for residential development.

Our joint venture with Bank of Scotland has secured the position of preferred bidder for a new corporate headquarters for Ordnance Survey in Southampton. This achievement was a result of the combined efforts of Kier Property, Kier Residential, Kier Regional and Kier Support Services and involves the development, construction and facilities management of new offices for Ordnance Survey which will release land on their existing site for future development. We also recently completed the purchase of a former British Gas site in Uxbridge from Second Site Property Limited. Kier Construction will carry out the remediation of the site which will then be available for industrial use with potential for some residential development.

The Property division continues to benefit from opportunities in all its sectors and, by combining with the talents of other Group businesses, is able to secure many opportunities for mixed-use and regeneration projects.

Infrastructure Investment

Our PFI business continues to be busy. In November 2005 we were announced preferred bidder on two new schools for Oldham Borough Council with a construction value of £54m. The construction of the schools will be carried out by Kier Regional with Kier Managed Services undertaking the facilities management upon their completion. This brings the number of projects at preferred bidder status to four, all of which are expected to reach financial close within the next few months.

The committed investment in our PFI portfolio is now £22.8m which will generate an average return of around 15% when all projects are fully operational. Yields continue to improve enhancing the future value of our investment.

We are short listed on two 'Building Schools for the Future' projects, one for Sheffield and the other for Waltham Forest. This new procurement route for schools is time consuming and expensive as, once again, we are charting new territory. However, should we be successful, the projects would provide us with valuable additional experience in the education arena along with construction and facilities management work.

Pensions

At 31 December 2005 the net pension deficit shown on the balance sheet, calculated as required by IAS 19, is £93.0m (December 2004: £79.8m, June 2005: £85.3m). The movement between the periods is attributable to the reduction in bond yields which, frustratingly, is the measure we are required to apply as a discount rate to future liabilities under IAS 19 and does not necessarily reflect the true level of liabilities. This has more than offset the increase in assets in each of the periods. The Board continues to take a responsible approach to pensions and, having made a special contribution of £12m in March 2005, has agreed to make further 'special contributions' over the next few months, amounting to £35m. The contributions will have no effect on the income statement for the year but will be shown as a reduction in cash and a reduction in pension deficit on the balance sheet. In addition to the above the Board has agreed a schedule of payments with the pension trustees aimed at eliminating the deficit over the next ten years. Recognising the cash outflow associated with funding the special contributions the Group's committed borrowing facilities have been extended by a further £40m in order that this issue does not impact on the Group's access to funds.

Health & Safety

The success of our Health & Safety initiative 'Don't Walk By' has resulted in an incident rate (AIR) of 595 per 100,000 members of staff and subcontractors at the end of December 2005 compared with an Health & Safety Executive (HSE) benchmark at that time of 1,023 per 100,000. The revised HSE benchmark for 2005/6 is now 902 per 100,000 and our focus will be on behavioural issues to further reduce our AIR over the coming year.

Prospects

Excellent prospects for growth arise out of all our markets. The construction market is continuing to benefit from government spending evidenced by the increasing proportion of work we are being awarded for public sector clients. In Support Services there is a growing number of local authority outsourcing contracts available to bid which we are in a strong position to pursue. In Homes, visitor and reservation levels are showing signs of a more active market which, should they continue, would lead to material growth in unit sales for the full year. Our Property business is attracting a wide range of new developments including mixed-use schemes and in PFI our pipeline and track record of awards will provide further growth.

Our businesses are working ever better together to provide a total solution to clients' increasingly complex requirements and I am extremely proud of their achievements.

With a good reputation, sound financial strength, a rising generation of talented people and favourable markets Kier can look forward to further growth this year and beyond.

Consolidated income statement

	Notes	**Unaudited 6 months to 31 December 2005 £m**	Unaudited 6 months to 31 December 2004 £m	Year to 30 June 2005 £m
Revenue - continuing operations				
Group and share of joint ventures	3	**922.6**	805.6	1,623.2
Less share of joint ventures		**(41.3)**	(14.5)	(50.2)
Group revenue		**881.3**	791.1	1,573.0
Cost of sales		**(804.0)**	(722.8)	(1,433.8)
Gross profit		**77.3**	68.3	139.2
Administrative expenses		**(50.0)**	(43.7)	(91.1)
Share of post tax profits from joint ventures		**1.3**	-	0.9
Profit from operations	3	**28.6**	24.6	49.0
Exceptional items (other non-operating income)	4	**-**	5.9	6.7
Finance income		**2.7**	1.8	4.0
Finance cost		**(2.9)**	(2.7)	(5.2)
Profit before tax	3	**28.4**	29.6	54.5
Taxation	5	**(7.8)**	(11.3)	(17.9)
Profit for the period		**20.6**	18.3	36.6
Earnings per ordinary share				
- basic	7	**58.0p**	51.8p	103.4p
- diluted		**57.5p**	51.5p	102.5p
Underlying earnings per ordinary share (excluding exceptional items)				
- basic	7	**58.0p**	47.3p	96.6p
- diluted		**57.5p**	47.0p	95.8p

Consolidated statement of recognised income and expense

	Notes	**Unaudited 6 months to 31 December 2005 £m**	Unaudited 6 months to 31 December 2004 £m	Year to 30 June 2005 £m
Foreign exchange translation differences		**-**	(0.3)	0.1
Fair value movements in cash flow hedging instruments		**(0.5)**	-	-
Actuarial gains and losses on defined benefit pension schemes		**(10.8)**	(21.5)	(41.5)
Deferred tax on items recognised directly in equity		**3.4**	6.5	12.5
Net expense recognised directly in equity		**(7.9)**	(15.3)	(28.9)
Profit for the period		**20.6**	18.3	36.6
Total recognised income and expense for the period		**12.7**	3.0	7.7
Effect of change in accounting policy				
Adoption of IAS 32 and IAS 39, net of tax, on 1 July 2005 (with June 2005 not restated) on:				
Cash flow hedge reserve	8	**(5.3)**	-	-
Total recognised income and expense for the period attributable to shareholders		**7.4**	3.0	7.7

Consolidated balance sheet

	Notes	**Unaudited 31 December 2005 £m**	Unaudited 31 December 2004 £m	30 June 2005 £m
Non-current assets				
Intangible assets		**15.7**	17.6	16.7
Property, plant and equipment		**71.8**	69.8	75.8
Investment in joint ventures		**17.4**	20.8	22.9
Deferred tax assets		**41.5**	34.2	38.3
Other financial assets		**1.1**	-	-
Trade and other receivables		**12.1**	5.8	14.6
Non-current assets		**159.6**	148.2	168.3
Current assets				
Inventories		**369.1**	296.8	325.7
Trade and other receivables		**254.9**	193.0	233.3
Cash and cash equivalents		**117.8**	100.3	93.5
Current assets		**741.8**	590.1	652.5
Total assets		**901.4**	738.3	820.8
Current liabilities				
Bank overdrafts and loans		**(0.1)**	-	(5.3)
Trade and other payables		**(600.6)**	(490.6)	(566.5)
Tax liabilities		**(11.4)**	(12.0)	(9.5)
Provisions		**(1.0)**	(1.9)	(1.2)
Current liabilities		**(613.1)**	(504.5)	(582.5)
Non-current liabilities				
Interest-bearing loans and borrowings		**(30.1)**	(30.1)	(30.1)
Other payables		**(50.8)**	(22.8)	(17.2)
Retirement benefit obligations		**(132.9)**	(114.0)	(121.9)
Provisions		**(19.1)**	(16.5)	(16.3)
Deferred tax liabilities		**-**	(0.4)	-
Non-current liabilities		**(232.9)**	(183.8)	(185.5)
Total liabilities		**(846.0)**	(688.3)	(768.0)
Net assets	3	**55.4**	50.0	52.8
Equity				
Share capital		**0.4**	0.4	0.4
Share premium		**20.0**	17.7	18.2
Capital redemption reserve		**2.7**	2.7	2.7
Share scheme reserve		**(1.5)**	(0.4)	(0.3)
Retained earnings		**39.4**	29.6	31.8
Cash flow hedge reserve		**(5.6)**	-	-
Total equity	8	**55.4**	50.0	52.8

Consolidated cash flow statement

		Unaudited 6 months to 31 December 2005 £m	Unaudited 6 months to 31 December 2004 £m	Year to 30 June 2005 £m
Cash flows from operating activities				
Profit from operations		**28.6**	24.6	49.0
Adjustments	Share of results of joint ventures	**(1.3)**	-	(0.9)
	Pensions charge in excess of cash contributions	**0.2**	-	(0.1)
	Share-based payments charge	**0.4**	0.3	0.6
	Amortisation of intangible assets	**1.0**	1.0	1.9
	Depreciation charges	**6.1**	6.4	12.3
	Profit on disposal of property, plant & equipment	**(1.2)**	(0.2)	(0.5)
	Increase in provisions	**2.5**	3.4	1.8
Operating cash flows before movements in working capital		**36.3**	35.5	64.1
Additional contribution to pension fund		**-**	-	(12.0)
(Increase)/decrease in inventories		**(40.5)**	25.1	19.7
(Increase)/decrease in receivables		**(18.7)**	32.0	(16.7)
Increase/(decrease) in payables		**66.3**	(30.3)	31.3
Cash inflow from operating activities		**43.4**	62.3	86.4
Interest received		**2.5**	2.4	3.7
Income taxes paid		**(6.5)**	(5.1)	(12.8)
Net cash generated from operating activities		**39.4**	59.6	77.3
Cash flows from investing activities				
Proceeds from sale of property, plant & equipment		**4.2**	5.1	6.0
Proceeds from sale of investments		**-**	5.0	5.8
Refinancing of PFI joint venture		**-**	8.1	8.1
Dividends received from joint ventures		**1.0**	0.4	0.4
Purchases of property, plant & equipment		**(8.0)**	(8.5)	(19.9)
Acquisition of subsidiaries		**-**	-	(16.5)
Investment in joint ventures		**(0.6)**	(1.5)	(1.5)
Net cash used in investing activities		**(3.4)**	8.6	(17.6)
Cash flows from financing activities				
Proceeds from the issue of share capital		**-**	0.1	0.2
Purchase of own shares		**(1.5)**	(0.4)	(0.4)
Interest paid		**(1.3)**	(1.0)	(2.6)
Dividends paid		**(3.7)**	(4.3)	(6.4)
Net cash used in financing activities		**(6.5)**	(5.6)	(9.2)
Net increase in cash and cash equivalents		**29.5**	62.6	50.5
Opening net cash and cash equivalents		**88.2**	37.7	37.7
Closing net cash and cash equivalents		**117.7**	100.3	88.2
Reconciliation of net cash flow to movement in net funds				
Net increase in cash and cash equivalents		**29.5**	62.6	50.5
Opening net funds		**58.1**	7.6	7.6
Closing net funds		**87.6**	70.2	58.1
Net funds consist of:				
Cash and cash equivalents		**117.8**	100.3	93.5
Overdrafts		**(0.1)**	-	(5.3)
Net cash and cash equivalents		**117.7**	100.3	88.2
Long-term borrowings		**(30.1)**	(30.1)	(30.1)
Net funds		**87.6**	70.2	58.1

Notes to the financial statements

1 Basis of preparation

EU law requires that the next annual financial statements of the Group, for the year ending 30 June 2006, be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU (adopted IFRS).

This interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRS in issue that are either endorsed by the EU and effective (or available for early adoption) at 30 June 2006 or are expected to be endorsed and effective (or available for early adoption) at 30 June 2006.

Based on these adopted and unadopted IFRS, the directors have made assumptions about the accounting policies expected to be applied which are as set out below, for the year ending 30 June 2006.

In addition, the adopted IFRS that will be effective (or available for early adoption) in the financial statements for the year ending 30 June 2006 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the financial statements are prepared for the year ending 30 June 2006.

The results for the six months to 31 December 2005 and the comparative figures for the six months to 31 December 2004 are unaudited but have been reviewed by the auditors KPMG Audit Plc. The scope of the review was substantially less than an audit in accordance with Auditing Standards.

The comparative figures for the year ended 30 June 2005 are not the Company's statutory accounts for that financial year. Those accounts, which were prepared under UK Generally Accepted Accounting Practice (GAAP), have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The comparative figures for the six months ended 31 December 2004 and for the year ended 30 June 2005 have been restated for the adoption of IFRS. The principal differences between UK GAAP and IFRS for the Group are set out in note 9. Note 10 sets out the effect of IAS 32 and IAS 39 on Kier Group at 1 July 2005 and includes details on the draft interpretation on accounting for service concessions. As permitted by the exemption from retrospective application in IFRS 1 'First-time Adoption of IFRS', IAS 32 and IAS 39 have been applied from 1 July 2005 with no restatement for prior periods. IFRS transitional information is shown in note 11.

2 Accounting policies

Details of significant amendments to the Group's accounting policies (as set out in the 2005 annual accounts) resulting from the adoption of IFRS are included in notes 9 and 10. With the exception of those changes detailed therein, the accounting policies used are consistent with those disclosed in the 2005 annual accounts.

3 Segmental analysis

For management purposes the Group is currently 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 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)	57.3	783.6
Total liabilities	(452.6)	(76.5)	(103.9)	(8.1)	(2.6)	(172.1)	(815.8)
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**

Notes to the financial statements continued

3 Segmental analysis continued

	Construction £m	Support Services £m	Homes £m	Property £m	Infrastructure Investment £m	Centre £m	Group £m
Six months to 31 December 2004							
Revenue							
Group and share of joint ventures	**524.5**	**113.9**	**134.5**	**27.2**	**5.5**	**-**	**805.6**
Less share of joint ventures	(3.2)	-	-	(6.4)	(4.9)	-	(14.5)
Group revenue	521.3	113.9	134.5	20.8	0.6	-	791.1
Profit							
Group operating profit	5.5	2.2	19.6	2.3	(0.6)	(4.4)	24.6
Share of joint ventures' operating profit	0.3	-	-	1.4	0.2	-	1.9
Group and share of joint ventures	**5.8**	**2.2**	**19.6**	**3.7**	**(0.4)**	**(4.4)**	**26.5**
Share of joint ventures - finance cost	-	-	-	(0.9)	(0.7)	-	(1.6)
- tax	-	-	-	(0.3)	-	-	(0.3)
Profit from operations	5.8	2.2	19.6	2.5	(1.1)	(4.4)	24.6
Exceptional items (other non-operating income)	-	-	-	-	2.1	3.8	5.9
Finance income/(cost)	5.4	(0.7)	(5.6)	(0.2)	0.7	(0.5)	(0.9)
Profit before tax	**11.2**	**1.5**	**14.0**	**2.3**	**1.7**	**(1.1)**	**29.6**
Balance sheet							
Total assets	200.4	75.2	288.3	28.5	1.0	44.6	638.0
Total liabilities	(370.7)	(55.6)	(68.2)	(15.3)	(7.4)	(141.0)	(658.2)
Net operating assets/(liabilities)	(170.3)	19.6	220.1	13.2	(6.4)	(96.4)	(20.2)
Cash, net of debt	237.0	(11.7)	(160.3)	(4.5)	3.2	6.5	70.2
Net assets	**66.7**	**7.9**	**59.8**	**8.7**	**(3.2)**	**(89.9)**	**50.0**

The segmental information for Construction and Support Services has been restated to reflect the reclassification of Kier Plant from Construction to Support Services. This has increased revenue by £5.6m and operating profit by £1.0m in Support Services with a corresponding reduction in Construction.

	Construction £m	Support Services £m	Homes £m	Property £m	Infrastructure Investment £m	Centre £m	Group £m
Year to 30 June 2005							
Revenue							
Group and share of joint ventures	**1,086.3**	**237.4**	**225.5**	**62.2**	**11.8**	**-**	**1,623.2**
Less share of joint ventures	(7.3)	-	-	(32.0)	(10.9)	-	(50.2)
Group revenue	1,079.0	237.4	225.5	30.2	0.9	-	1,573.0
Profit							
Group operating profit	14.2	5.0	32.9	5.6	(1.7)	(7.9)	48.1
Share of joint ventures' operating profit	(0.4)	-	-	4.8	0.8	-	5.2
Group and share of joint ventures	**13.8**	**5.0**	**32.9**	**10.4**	**(0.9)**	**(7.9)**	**53.3**
Share of joint ventures - finance cost	-	-	-	(2.2)	(0.9)	-	(3.1)
- tax	0.1	-	-	(0.8)	(0.5)	-	(1.2)
Profit from operations	13.9	5.0	32.9	7.4	(2.3)	(7.9)	49.0
Exceptional items (other non-operating income)	0.8	-	-	-	2.1	3.8	6.7
Finance income/(cost)	11.5	(1.1)	(11.5)	(0.6)	1.1	(0.6)	(1.2)
Profit before tax	**26.2**	**3.9**	**21.4**	**6.8**	**0.9**	**(4.7)**	**54.5**
Balance sheet							
Total assets	245.1	77.3	320.2	31.6	1.8	51.3	727.3
Total liabilities	(431.2)	(66.2)	(74.6)	(7.2)	(3.5)	(149.9)	(732.6)
Net operating assets/(liabilities)	(186.1)	11.1	245.6	24.4	(1.7)	(98.6)	(5.3)
Cash, net of debt	258.2	(2.1)	(185.5)	(12.6)	(2.0)	2.1	58.1
Net assets	**72.1**	**9.0**	**60.1**	**11.8**	**(3.7)**	**(96.5)**	**52.8**

The segmental information for Construction and Support Services has been restated to reflect the reclassification of Kier Plant from Construction to Support Services. This has increased revenue by £9.9m and operating profit by £1.8m in Support Services with a corresponding reduction in Construction.

Notes to the financial statements continued

4 Exceptional items (other non-operating income)

Other non-operating income for the year to 30 June 2005 arose from the following:

	Unaudited 31 December 2004 £m	30 June 2005 £m
Disposal of investment in a PFI joint venture	2.1	2.1
Disposal of a property held in property, plant and equipment	3.8	3.8
Disposal of investment in Kier Hong Kong Limited	-	0.8
	5.9	6.7

5 Taxation

The taxation charge for the six months ended 31 December 2005 has been calculated at 29.5% (June 2005 30.2%, December 2004 30.4%) of underlying profit before tax, being profits adjusted for other non-operating income and 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 2005 £m	Unaudited 31 December 2004 £m	30 June 2005 £m
Profit before tax	**28.4**	29.6	54.5
Less: exceptional items	**-**	(5.9)	(6.7)
Add: tax on joint ventures	**0.8**	0.3	1.2
Underlying profit before tax	**29.2**	24.0	49.0
Tax charge	**7.8**	11.3	17.9
Less: tax on exceptional items	**-**	(4.3)	(4.3)
Add: tax on joint ventures	**0.8**	0.3	1.2
Underlying tax charge	**8.6**	7.3	14.8
Rate	**29.5%**	30.4%	30.2%

6 Dividends

Amounts recognised as distributions to equity holders in the period.

	Unaudited 31 December 2005 £m	Unaudited 31 December 2004 £m	30 June 2005 £m
Final dividend for the year ended 30 June 2005 of 15.2 pence (2004: 13.0 pence)	**5.4**	4.6	4.6
Interim dividend for the year ended 30 June 2005 of 7.0 pence	**-**	-	2.5
	5.4	4.6	7.1

The proposed interim dividend of 8.2 pence (2005: 7.0 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £2.9m will be paid on 18 May 2006 to shareholders on the register at the close of business on 24 March 2006. A scrip dividend alternative will be offered.

Notes to the financial statements continued

7 Earnings per share

	Unaudited 31 December 2005 £m	Unaudited 31 December 2004 £m	30 June 2005 £m
Profit after tax	**20.6**	18.3	36.6
Less: exceptional items	**-**	(5.9)	(6.7)
Add: tax on exceptional items	**-**	4.3	4.3
Underlying profit after tax	**20.6**	16.7	34.2
Add: amortisation of intangible assets	**1.0**	1.0	1.9
Less: tax on amortisation of intangible assets	**(0.3)**	(0.3)	(0.6)
Adjusted profit after tax	**21.3**	17.4	35.5
	million	million	million
Weighted average number of shares used for EPS			
- basic	**35.5**	35.3	35.4
- diluted	**35.8**	35.5	35.7
	pence	pence	pence
Earnings per share			
- basic	**58.0**	51.8	103.4
- diluted	**57.5**	51.5	102.5
Underlying earnings per share after excluding exceptional items			
- basic	**58.0**	47.3	96.6
- diluted	**57.5**	47.0	95.8
Adjusted earnings per share after excluding exceptional items and amortisation of intangible assets			
- basic	**60.0**	49.3	100.3
- diluted	**59.5**	49.0	99.4

8 Reconciliation of changes in total equity

	Unaudited 31 December 2005 £m	Unaudited 31 December 2004 £m	30 June 2005 £m
Opening shareholders' equity	**52.8**	51.2	51.2
Adjustments on adoption of IAS 32 and IAS 39 on 1 July 2005 (net of tax)	**(5.3)**	-	-
Restated opening shareholders' equity	**47.5**	51.2	51.2
Recognised income and expense for the period	**12.7**	3.0	7.7
Dividends paid	**(5.4)**	(4.6)	(7.1)
Issue of own shares	**1.8**	0.5	0.8
Share-based payments	**(1.2)**	(0.1)	0.2
Closing shareholders' equity	**55.4**	50.0	52.8

Notes to the financial statements continued

9 Principal differences between UK GAAP and IFRS

There are eight principal differences which give rise to changes in the Group's reported profits and net assets as set out in the 2005 annual accounts. These are categorised as follows:

i) Retirement benefit costs
ii) Sales and marketing costs
iii) Deferred land payments
iv) Property transactions
v) Other including:

- proposed dividends
- deferred tax
- share-based payments
- goodwill

In addition there is a change to the way in which joint ventures are disclosed having no impact on net assets or net profits.

i) Retirement benefit costs
Under UK GAAP the Group accounted for its defined benefit schemes in accordance with SSAP 24 'Accounting for Pension Costs'. The cost of providing the defined benefit pensions was charged against 'operating profit' with surpluses and deficits arising in the funds amortised to 'operating profit' over the remaining service lives of participating employees. Under IAS 19 (Revised) 'Employee Benefits' the cost of providing pension benefits (current service cost) for defined benefit pensions schemes is recognised in profit or loss, together with the interest cost arising on the projected obligations, returns on scheme assets and past service costs. The defined benefit obligation is determined bi-annually by independent actuaries and recognised on the balance sheet. Actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they occur.

The impact is similar to that arising under the UK GAAP standard FRS 17 'Retirement Benefits', details of which are disclosed in the notes to the Group's 2005 annual accounts.

ii) Sales and marketing costs
Under UK GAAP sales and marketing costs for the Residential and Property divisions are capitalised in site work in progress and written off through cost of sales as the site progresses. Under IAS 2 'Inventories' costs relating to sales and marketing activities are required to be written off as incurred.

iii) Deferred land payments
Under UK GAAP deferred land payments (land creditors) are included in 'creditors' at their gross value. Under IAS 2 'Inventories' imputed interest is recognised on deferred land payments with the result that the land creditors are carried in the balance sheet at net present value and the value of land held on the balance sheet in inventories is reduced. The unwinding of the imputed interest (or discount) on land creditors is charged to finance cost and the reduction in land values in inventories will result in an eventual reduction in cost of sales as the land is traded out.

iv) Property transactions
Under UK GAAP where property developments are sold in advance of construction, turnover and profit are recognised over the life of the contract in accordance with SSAP 9 'Stocks and Long-Term Contracts.' Under IAS 18 'Revenue', where property developments are sold in advance of construction being completed, revenue and profit are recognised from the point of sale, and as the significant outstanding acts of construction and development are completed.

v) Other adjustments
Other changes to accounting policies that have an impact on restated net assets and profit under IFRS are as follows:

a) Proposed dividends
Under UK GAAP as applicable for the year ended 30 June 2005, proposed dividends were recognised as a liability in the period to which they relate. Under IAS 10 'Events after the Balance Sheet Date' dividends are not recognised as a liability until they are appropriately authorised and no longer at the discretion of the Company.

b) Deferred taxation
IAS 12 'Income Taxes' requires deferred tax to be recognised on all temporary differences and not just timing differences as previously under UK GAAP. Deferred tax liabilities are recognised in full but deferred tax assets are only recognised if future taxable profits are available to cover the assets.

c) Share-based payments
As permitted by the exemption from retrospective application in IFRS 1, the Group has adopted IFRS 2 'Share-based Payments' for all payments granted after 7 November 2002. This requires that share-based payments granted after that date, but not vested, should be valued at the fair value of the shares at the date of grant. This affects the Sharesave and Long-Term Incentive Plan schemes. The fair value of these shares at date of award is calculated using the Black Scholes model.

d) Goodwill and intangible assets
Under UK GAAP, goodwill is amortised on a straight line basis over its useful economic life (in the case of Kier for up to ten years) tested for impairment and provided for as necessary. Under IFRS 3 'Business Combinations' goodwill is no longer amortised but is carried at cost and subject to annual review for impairment at 30 June. It is effectively frozen at June 2004 with amounts amortised subsequently under UK GAAP being reinstated.

At June 2004 the Group balance sheet contained £18.6m of goodwill. £13.4m of this relates to the business and assets of the Construction and Building Services operation of Sheffield City Council. This has been reclassified from goodwill to intangible assets in respect of contract rights under IFRS and will continue to be amortised on a straight line basis over the remaining life of the contract. The balance of £5.2m relates to the acquisition of Partnerships First in 2002. This balance has been maintained at the 30 June 2004 carrying value.

vi) Joint ventures (disclosure item)
Under IFRS the results of joint ventures may either be accounted for under the net equity method or proportional consolidation. The Group reported its joint ventures under UK GAAP using the net equity method and has opted to continue to follow this method. Under the net equity method trading results from joint ventures are shown net of tax within profit before tax. This has no impact on net assets or on profit after tax.

Notes to the financial statements continued

10 Other differences between UK GAAP and IFRS largely relating to PFI concessions

i) Financial instruments
The recognition, measurement and presentation of financial instruments is dealt with under IAS 39 and IAS 32. Under UK GAAP there was no comprehensive standard which addressed the accounting for financial instruments as applicable for the year ended 30 June 2005. FRS 13 'Derivatives and other financial instruments' in the UK required disclosures to be made in respect of financial instruments but these were less comprehensive than IAS 32.

As permitted by IFRS 1, the Group has elected not to restate comparative information in accordance with IAS 39 and IAS 32. The significant changes in accounting polices are in relation to the accounting treatment of derivative financial instruments.

The Group's IFRS accounting policies under IAS 32 and IAS 39 are as follows:

- Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently re-measured in future periods at their fair value. The method of recognising the resulting change in fair value is dependent on whether the derivative is designated as an effective hedging instrument.
- A number of the Group's PFI joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk under cash flow hedges, which are initially recognised at fair value. The effective part of the change in fair value of these derivatives is recognised directly in equity. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate derivatives is the estimated amount that the Group would receive or pay to terminate the derivative at the balance sheet date.
- The Group also enters into forward contracts in order to hedge against transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, changes in fair value of derivatives are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

The Group's share of the fair value of these interest rate swaps together with other minor Group derivatives, at 1 July 2005 results in a liability of £7.5m (excluding the Group's share of the related deferred tax). The application of IAS 39 at that date reduces the net assets of the Group by £5.3m (£7.5m less tax).

ii) Accounting for service concessions
In determining an appropriate accounting policy for the Group's interests in PFI projects under adopted IFRS, the Group has considered the current status of the project by the International Financial Reporting Interpretations Committee (IFRIC) on accounting for service concession arrangements. IFRIC published three draft interpretations on accounting for service concessions in 2005. However, the final form of the interpretations, and the timetable for IFRIC to finalise and the EU to adopt the interpretations, remain uncertain.

In light of this uncertainty, the Group considers that until such time as final guidance is issued by IFRIC and adopted by the EU it remains appropriate to account for PFI assets in the same way as previously accounted for under UK GAAP.

A consequence of this approach is that PFI contract assets (i.e. property, plant and equipment, and finance debtors) are measured on the basis of historical cost, whereas the interest rate swaps held by the PFI joint ventures for the purpose of hedging floating rate liabilities are measured at fair value both initially and subsequently. If the IFRIC draft interpretations are finalised in the current form, to the extent that PFI contract assets are recognised as financial assets (finance debtors) they also may be measured initially and subsequently at fair value.

The carrying value of the Group's investments in PFI joint ventures as at 31 December 2005 on an IFRS basis was a liability of £4.4m, after deducting net losses on interest rate swaps of £6.3m and including an £8.1m unrealised refinancing gain. This reflects the accounting model the Group has applied to its PFI interests under IFRS, in which contract assets are measured on an historical cost basis but derivatives held for hedging purposes are measured at fair value. If the Group had applied a different accounting model to its PFI finance debtors and measured them at fair value, the recognition of fair value net gains would have mitigated the effects of the interest rate swaps set out above and increased the net assets of the Group accordingly.

Notes to the financial statements continued

11 Reconciliation of UK GAAP to IFRS

The effects of the differences between UK GAAP and IFRS as set out in note 9, on the 31 December 2004 and 30 June 2005 results as published under UK GAAP are shown below.

a) Consolidated income statement for the six months ended 31 December 2004 - reconciliation UK GAAP to IFRS

		IFRS adjustments						
	UK GAAP balances in adopted IFRS format £m	(i) Retirement benefits £m	(ii) Sales & marketing £m	(iii) Deferred land payments £m	(iv) Property transactions £m	(v) Other £m	(vi) Joint ventures £m	**IFRS £m**
Revenue - continuing operations								
Group and share of joint ventures	**816.1**				(10.5)			**805.6**
Less share of joint ventures	**(25.0)**				10.5			**(14.5)**
Group revenue	**791.1**				-			**791.1**
Cost of sales	**(722.2)**		0.1	0.3		(1.0)		**(722.8)**
Gross profit	**68.9**		0.1	0.3	-	(1.0)		**68.3**
Administrative expenses	**(43.7)**							**(43.7)**
Goodwill amortisation	**(1.3)**					1.3		**-**
Operating profit - joint ventures	**2.8**				(0.9)		(1.9)	**-**
Share of post tax profits from joint ventures	**-**							**-**
Profit from operations	**26.7**		0.1	0.3	(0.9)	0.3	(1.9)	**24.6**
Exceptional items	**5.9**							**5.9**
Finance income - Group	**1.8**							**1.8**
Finance cost - Group	**(1.3)**			(1.4)				**(2.7)**
Finance cost - joint ventures	**(1.6)**						1.6	**-**
Profit before tax	**31.5**		0.1	(1.1)	(0.9)	0.3	(0.3)	**29.6**
Taxation	**(12.2)**			0.3	0.3		0.3	**(11.3)**
Profit for the period	**19.3**	-	0.1	(0.8)	(0.6)	0.3	-	**18.3**
Earnings per ordinary share	**54.7p**							**51.8p**
Adjusted earnings per ordinary share (excluding exceptional items and amortisation of intangible assets)	**53.0p**							**49.3p**

b) Consolidated statement of changes in equity for the six months ended 31 December 2004 - reconciliation UK GAAP to IFRS

		IFRS adjustments						
	UK GAAP balances in adopted IFRS format £m	(i) Retirement benefits £m	(ii) Sales & marketing £m	(iii) Deferred land payments £m	(iv) Property transactions £m	(v) Other £m	(vi) Joint ventures £m	**IFRS £m**
Opening shareholders' equity	**116.4**	(64.8)	(2.6)	-	(0.3)	2.5	-	**51.2**
Foreign exchange translation differences	**(0.3)**							**(0.3)**
Actuarial gains and losses in pension scheme	**-**	(21.5)						**(21.5)**
Deferred tax on actuarial gains and losses in pension scheme	**-**	6.5						**6.5**
Net losses recognised directly in equity	**(0.3)**	(15.0)						**(15.3)**
Profit for the period	**19.3**	-	0.1	(0.8)	(0.6)	0.3	-	**18.3**
Total recognised income for the period	**19.0**	(15.0)	0.1	(0.8)	(0.6)	0.3	-	**3.0**
Dividends paid	**(2.5)**					(2.1)		**(4.6)**
Issue of own shares	**0.4**					0.1		**0.5**
Share-based payments	**(0.1)**							**(0.1)**
Closing shareholders' equity	**133.2**	(79.8)	(2.5)	(0.8)	(0.9)	0.8	-	**50.0**

Notes to the financial statements continued

11 Reconciliation of UK GAAP to IFRS continued

c) Consolidated income statement for the year ended 30 June 2005 - reconciliation UK GAAP to IFRS

		IFRS adjustments						
	UK GAAP balances in adopted IFRS format £m	(i) Retirement benefits £m	(ii) Sales & marketing £m	(iii) Deferred land payments £m	(iv) Property transactions £m	(v) Other £m	(vi) Joint ventures £m	**IFRS £m**
Revenue - continuing operations								
Group and share of joint ventures	**1,621.4**				1.8			**1,623.2**
Less share of joint ventures	**(48.4)**				(1.8)			**(50.2)**
Group revenue	**1,573.0**				-			**1,573.0**
Cost of sales	**(1,430.7)**		(1.7)	0.5		(1.9)		**(1,433.8)**
Gross profit	**142.3**		(1.7)	0.5	-	(1.9)		**139.2**
Administrative expenses	**(91.2)**	0.1						**(91.1)**
Goodwill amortisation	**(2.5)**					2.5		**-**
Operating profit - joint ventures	**4.8**		(0.1)		0.5		(5.2)	**-**
Share of post tax profits from joint ventures	**-**						0.9	**0.9**
Profit from operations	**53.4**	0.1	(1.8)	0.5	0.5	0.6	(4.3)	**49.0**
Exceptional items	**6.7**							**6.7**
Finance income - Group	**4.0**							**4.0**
Finance cost - Group	**(3.1)**			(2.1)				**(5.2)**
Finance cost - joint ventures	**(3.1)**						3.1	**-**
Profit before tax	**57.9**	0.1	(1.8)	(1.6)	0.5	0.6	(1.2)	**54.5**
Taxation	**(20.1)**		0.5	0.5	(0.2)	0.2	1.2	**(17.9)**
Profit for the year	**37.8**	0.1	(1.3)	(1.1)	0.3	0.8	-	**36.6**
Earnings per ordinary share	**106.8p**							**103.4p**
Adjusted earnings per ordinary share (excluding exceptional items and amortisation of intangible assets)	**105.4p**							**100.3p**

d) Consolidated statement of changes in equity for the year ended 30 June 2005 - reconciliation UK GAAP to IFRS

		IFRS adjustments						
	UK GAAP balances in adopted IFRS format £m	(i) Retirement benefits £m	(ii) Sales & marketing £m	(iii) Deferred land payments £m	(iv) Property transactions £m	(v) Other £m	(vi) Joint ventures £m	**IFRS £m**
Opening shareholders' equity	**116.4**	(64.8)	(2.6)	-	(0.3)	2.5	-	**51.2**
Foreign exchange translation differences	**0.1**							**0.1**
Actuarial gains and losses in pension scheme	**-**	(41.5)						**(41.5)**
Deferred tax on actuarial gains and losses in pension scheme	**-**	12.5						**12.5**
Net income/(losses) recognised directly in equity	**0.1**	(29.0)						**(28.9)**
Profit for the year	**37.8**	0.1	(1.3)	(1.1)	0.3	0.8	-	**36.6**
Total recognised income for the year	**37.9**	(28.9)	(1.3)	(1.1)	0.3	0.8	-	**7.7**
Dividends paid	**(7.9)**					0.8		**(7.1)**
Issue of own shares	**0.8**							**0.8**
Share-based payments	**0.2**							**0.2**
Closing shareholders' equity	**147.4**	(93.7)	(3.9)	(1.1)	-	4.1	-	**52.8**

Notes to the financial statements continued

11 Reconciliation of UK GAAP to IFRS continued

e) Opening consolidated balance sheet at 30 June 2004 - reconciliation UK GAAP to IFRS

		IFRS adjustments					
	UK GAAP balances in adopted IFRS format £m	(i) Retirement benefits £m	(ii) Sales & marketing £m	(iii) Deferred land payments £m	(iv) Property transactions £m	(v) Other £m	IFRS £m
Non-current assets							
Intangible assets	**18.6**						**18.6**
Property, plant and equipment	**68.9**						**68.9**
Investment in joint ventures	**32.2**		(0.1)		(0.3)	(0.9)	**30.9**
Deferred tax assets	**-**	27.7					**27.7**
Trade and other receivables	**6.2**						**6.2**
Non-current assets	**125.9**	27.7	(0.1)		(0.3)	(0.9)	**152.3**
Current assets							
Inventories	**328.6**		(3.6)	(3.2)			**321.8**
Trade and other receivables	**225.0**						**225.0**
Cash and cash equivalents	**41.4**						**41.4**
Current assets	**595.0**		(3.6)	(3.2)			**588.2**
Total assets	**720.9**	27.7	(3.7)	(3.2)	(0.3)	(0.9)	**740.5**
Current liabilities							
Bank overdrafts and loans	**(3.7)**						**(3.7)**
Trade and other payables	**(521.9)**			0.9		4.6	**(516.4)**
Tax liabilities	**(5.1)**						**(5.1)**
Provisions	**(2.3)**						**(2.3)**
Current liabilities	**(533.0)**			0.9		4.6	**(527.5)**
Non-current liabilities							
Interest-bearing loans and borrowings	**(30.1)**						**(30.1)**
Other payables	**(28.4)**			2.3			**(26.1)**
Retirement benefit obligations	**-**	(92.5)					**(92.5)**
Provisions	**(12.6)**						**(12.6)**
Deferred tax liabilities	**(0.4)**		1.1			(1.2)	**(0.5)**
Non-current liabilities	**(71.5)**	(92.5)	1.1	2.3		(1.2)	**(161.8)**
Total liabilities	**(604.5)**	(92.5)	1.1	3.2		3.4	**(689.3)**
Net assets	**116.4**	(64.8)	(2.6)	-	(0.3)	2.5	**51.2**
Equity							
Share capital	**0.4**						**0.4**
Share premium	**17.1**					0.1	**17.2**
Capital redemption reserve	**2.7**						**2.7**
Share scheme reserve	**(0.4)**					0.1	**(0.3)**
Retained earnings	**96.6**	(64.8)	(2.6)	-	(0.3)	2.3	**31.2**
Total equity	**116.4**	(64.8)	(2.6)	-	(0.3)	2.5	**51.2**

Notes to the financial statements continued

11 Reconciliation of UK GAAP to IFRS continued

f) Consolidated balance sheet at 31 December 2004 - reconciliation UK GAAP to IFRS

		IFRS adjustments					
	UK GAAP balances in adopted IFRS format £m	(i) Retirement benefits £m	(ii) Sales & marketing £m	(iii) Deferred land payments £m	(iv) Property transactions £m	(v) Other £m	IFRS £m
Non-current assets							
Intangible assets	**17.3**					0.3	**17.6**
Property, plant and equipment	**69.8**						**69.8**
Investment in joint ventures	**22.7**		(0.1)		(0.9)	(0.9)	**20.8**
Deferred tax assets	**-**	34.2					**34.2**
Trade and other receivables	**5.8**						**5.8**
Non-current assets	**115.6**	34.2	(0.1)		(0.9)	(0.6)	**148.2**
Current assets							
Inventories	**303.1**		(3.4)	(2.9)			**296.8**
Trade and other receivables	**193.0**						**193.0**
Cash and cash equivalents	**100.3**						**100.3**
Current assets	**596.4**		(3.4)	(2.9)			**590.1**
Total assets	**712.0**	34.2	(3.5)	(2.9)	(0.9)	(0.6)	**738.3**
Current liabilities							
Bank overdrafts and loans	**-**						**-**
Trade and other payables	**(494.2)**			1.0		2.6	**(490.6)**
Tax liabilities	**(12.0)**						**(12.0)**
Provisions	**(1.9)**						**(1.9)**
Current liabilities	**(508.1)**			1.0		2.6	**(504.5)**
Non-current liabilities							
Interest-bearing loans and borrowings	**(30.1)**						**(30.1)**
Other payables	**(23.6)**			0.8			**(22.8)**
Retirement benefit obligations	**-**	(114.0)					**(114.0)**
Provisions	**(16.5)**						**(16.5)**
Deferred tax liabilities	**(0.5)**		1.0	0.3		(1.2)	**(0.4)**
Non-current liabilities	**(70.7)**	(114.0)	1.0	1.1		(1.2)	**(183.8)**
Total liabilities	**(578.8)**	(114.0)	1.0	2.1		1.4	**(688.3)**
Net assets	**133.2**	(79.8)	(2.5)	(0.8)	(0.9)	0.8	**50.0**
Equity							
Share capital	**0.4**						**0.4**
Share premium	**17.5**					0.2	**17.7**
Capital redemption reserve	**2.7**						**2.7**
Share scheme reserve	**(0.5)**					0.1	**(0.4)**
Retained earnings	**113.1**	(79.8)	(2.5)	(0.8)	(0.9)	0.5	**29.6**
Total equity	**133.2**	(79.8)	(2.5)	(0.8)	(0.9)	0.8	**50.0**

Notes to the financial statements continued

11 Reconciliation of UK GAAP to IFRS continued

g) Consolidated balance sheet at 30 June 2005 - reconciliation UK GAAP to IFRS

		IFRS adjustments					
	UK GAAP balances in adopted IFRS format £m	(i) Retirement benefits £m	(ii) Sales & marketing £m	(iii) Deferred land payments £m	(iv) Property transactions £m	(v) Other £m	**IFRS £m**
Non-current assets							
Intangible assets	**16.1**					0.6	**16.7**
Property, plant and equipment	**75.8**						**75.8**
Investment in joint ventures	**23.8**		(0.2)			(0.7)	**22.9**
Deferred tax assets	**-**	36.6				1.7	**38.3**
Trade and other receivables	**14.6**						**14.6**
Non-current assets	**130.3**	36.6	(0.2)			1.6	**168.3**
Current assets							
Inventories	**334.2**		(5.3)	(3.2)			**325.7**
Trade and other receivables	**245.3**	(12.0)					**233.3**
Cash and cash equivalents	**93.5**						**93.5**
Current assets	**673.0**	(12.0)	(5.3)	(3.2)			**652.5**
Total assets	**803.3**	24.6	(5.5)	(3.2)		1.6	**820.8**
Current liabilities							
Bank overdrafts and loans	**(5.3)**						**(5.3)**
Trade and other payables	**(572.5)**			0.6		5.4	**(566.5)**
Tax liabilities	**(9.5)**						**(9.5)**
Provisions	**(1.2)**						**(1.2)**
Current liabilities	**(588.5)**			0.6		5.4	**(582.5)**
Non-current liabilities							
Interest-bearing loans and borrowings	**(30.1)**						**(30.1)**
Other payables	**(18.2)**			1.0			**(17.2)**
Retirement benefit obligations	**-**	(121.9)					**(121.9)**
Provisions	**(16.3)**						**(16.3)**
Deferred tax liabilities	**(2.8)**	3.6	1.6	0.5		(2.9)	**-**
Non-current liabilities	**(67.4)**	(118.3)	1.6	1.5		(2.9)	**(185.5)**
Total liabilities	**(655.9)**	(118.3)	1.6	2.1		2.5	**(768.0)**
Net assets	**147.4**	(93.7)	(3.9)	(1.1)		4.1	**52.8**
Equity							
Share capital	**0.4**						**0.4**
Share premium	**17.9**					0.3	**18.2**
Capital redemption reserve	**2.7**						**2.7**
Share scheme reserve	**(0.2)**					(0.1)	**(0.3)**
Retained earnings	**126.6**	(93.7)	(3.9)	(1.1)		3.9	**31.8**
Total equity	**147.4**	(93.7)	(3.9)	(1.1)		4.1	**52.8**

Independent review report to Kier Group plc

Introduction

We have been engaged by the Company to review the financial information set out on pages 9 to 22 and 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 which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

As disclosed in note 1 to the financial information, the next annual financial statements of the Group will be prepared in accordance with IFRS adopted by the European Union. The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements.

There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRS adopted for use by the European Union.

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 United Kingdom. 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 is substantially less in scope than an audit performed in accordance with Auditing Standards 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 2005.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

15 March 2006