KIER
DEFINING TOMORROW'S ENVIRONMENTS

News Release

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KIER GROUP PLC
INTERIM RESULTS FOR THE
SIX MONTHS TO 31 DECEMBER 2013

Kier Group plc, the integrated construction, services and property group, announces its results for the six month period ended 31 December 2013.

	Six months ended 31 December 2013	Six months ended 31 December 2012†	*Change %*	*Like for Like+ %*
Revenue	**£1,432m**	£976m	***+47***	***+12***
Operating profit*	**£44.4m**	£22.7m	***+96***	***+34***
Profit before tax*	**£36.8m**	£19.4m	***+90***	
Underlying earnings per share*	**54.6p**	38.6p	***+41***	
Interim dividend per share	**22.5p**	21.5p	***+5***	

Financial performance in line with expectations

- Group revenue of more than £1.4bn (2012: £1.0bn) following the acquisition of May Gurney in July 2013
- Underlying profit before tax* up 90% to £36.8m (2012: £19.4m) following the acquisition of May Gurney
- Margins* maintained despite market pressures; construction margins at 2.3% (2012: 2.1%) and services margins at 4.3% (2012: 4.3%)
- Underlying earnings per share* of 54.6p (2012: 38.6p), up 41%
- Exceptional charge of £22.0m (2012: £4.4m) relating to the transaction costs and the ongoing integration of May Gurney
- Net debt position of £138m (2012: net cash £60m) following the acquisition of May Gurney and continued investment to drive future growth
- Interim dividend increased by 5% to 22.5p (2012: 21.5p), reflecting the Board's confidence in the business.

Operations benefiting from new contract awards

- More than £1.5bn of new work in the period with 100% of the forecast Construction division revenue and 97% of the Services division revenue for 2014 secured and probable
- Framework and negotiated work account for 60% of awards in period
- Successful integration of May Gurney in line with expectations creating a broadened capability
- Increased order book>£6bn

Continued …….

*Underlying operating profits and margins, profit before tax and EPS are stated before exceptional items totalling £22.0m (2012: £4.4m), amortisation of intangible assets relating to contract rights of £5.6m (2012: £1.8m) and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition of £2.9m (2012 £0.7m). The prior year comparatives have been re-presented to reflect this presentation (see note 3). Reported operating profit was £16.8m (2012: £16.5m), reported profit before tax was £6.3m (2012: £12.5m) and reported EPS was 7.6p (2012: 25.1p).
†Restated on adoption of the amendment to IAS 19 (see note 12).
+Excluding the contribution made by the May Gurney acquisition.

- Notable progress and awards in period:
    - £121m joint venture award delivering first phase of the Defence Technical Training Change Programme at RAF Lyneham and appointed to £400m MOD's National Capital Works Framework
    - Strong growth in infrastructure sector with £450m Mersey Gateway contract
    - Over £450m of new contracts in the Service division with strong awards in the housing maintenance, utilities and highways sectors including:
        - Preferred bidder for the £110m 3-year Sheffield City Council housing repairs and maintenance contract
        - Award of £107m 5-year Western Power Distribution contract
- £41m CostCo development transaction completed in January 2014.
- Financial close on three PFIs; London Fire, Staffordshire Fire and Woking Housing, totalling approximately £200m.
- Maintained pipeline of more than £1.5bn (December 2012: £1.3bn) in the Property division.

Commenting on the results, Paul Sheffield, chief executive said:

"The underlying performance of the Group has been encouraging in the period. Given the continuing financial pressures in the markets, margins in our Construction and Services divisions remain resilient."

"We are pleased with the performance of the May Gurney business which is operating in line with our expectations. The acquisition has consolidated the Group's position in support services, providing a range of complementary services to clients in the highways, transport and utilities sectors. The integration remains on course, with good customer retention, new extended contracts and revenue synergies. We are on track to deliver the anticipated £5m cost savings in this financial year. The Construction and Property divisions continue to strengthen."

"As reported at the year end, we are seeing early signs of economic recovery across the country. Our wider portfolio of offerings, strong cost management, a growing order book of over £6bn together with our strong capital structure, position us well for the future. We are encouraged by the prospects for the medium-term. We remain on course to meet the Board's expectations for the current financial year."

"As announced on 18 February I shall be stepping down as Chief Executive with effect from 30 June. Since I joined Kier in 1983, the Group has grown enormously, both in scale and the services it offers. I'm very proud of what we have accomplished, but feel it is now the right time to transition the leadership of the Group. I know that Haydn will do an excellent job leading Kier in the next phase of its development and I wish him every success in his new role."

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Chief Executive's Review

The Group delivered a good set of results for the six month period ended 31 December 2013. This performance has been achieved in a competitive trading environment and in a period of significant change for the business.

The acquisition of May Gurney in July 2013 has transformed the scale and diversity of the Services business, creating a division that now has annual revenue of over £1.0bn and has a market-leading position in a number of support services sectors. The Group now provides local authorities with access to an unrivalled range of outsourcing options and our ability to offer a broader range of capabilities has significantly increased.

Group revenue for the six months ended 31 December 2013 increased by 47% to £1,432m (2012: £976m) and underlying operating profit* increased by 96% to £44.4m (2012: £22.7m). On a like-for-like basis Group revenue was up 12% to £1,094m (2012: £976m) and underlying operating profit* up 34% to £30.4m (2012: £22.7m). Operating margins* remained stable, with resilient margins both in the Construction division of 2.3% (2012: 2.1%) and in the Services division of 4.3% (2012: 4.3%), in line with half-year expectations. Property delivered a strong profit contribution* of £11.1m (2012: £7.1m) on the back of its investment strategy.

Pressure on operating margins, cash and payment terms continues and the operating efficiency of the business remains a key priority. As expected, an exceptional charge of £22.0m (2012: £4.4m) was incurred during the period relating to the transaction costs and integration of May Gurney. Cash outflow during the period in respect of these items was approximately £25m.
Underlying profit before tax* for the six months of £36.8m (2012: £19.4m) and underlying earnings per share* of 54.6p (2012: 38.6p) were both in line with expectations.

Our focus on cash has continued. Month-end net debt balances in the period averaged £132m. The period ended with a net debt balance of £138m (June 2013: net cash £60m) following the acquisition of May Gurney and after the reinvestment of approximately £93m of cash in new development schemes, housing land and affordable housing work in progress which is anticipated will drive future growth.

The Board is pleased to announce an interim dividend of 22.5p (2012: 21.5p) which will be paid on 16 May 2014 to shareholders on the register at 7 March 2014. A scrip dividend alternative will also be available.

Board changes

On 18 February 2014, it was announced that I would be stepping down as Chief Executive and from the Board with effect from 30 June 2014. Haydn Mursell, currently Group Finance Director, will take up the role of Chief Executive with effect from 1 July 2014. An executive search will be conducted for a new Group Finance Director to succeed Haydn.

On 21 February 2014, Chris Geoghegan retired from the Board and as senior independent non-executive director. Richard Bailey, who joined the Board on 1 October 2010, has assumed the role of senior independent non-executive director (in addition to his role as Chairman of the Risk Management and Audit Committee). Amanda Mellor, who joined the Board on 1 December 2011 and has been a member of the Remuneration Committee since that date, has assumed the role of Chair of the Remuneration Committee and Phil White, Kier's Chairman, has become Chairman of the Nomination Committee.

*Underlying operating profits and margins, profit before tax and EPS are stated before exceptional items, amortisation of intangible assets relating to contract rights and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition (see note 3). The prior year comparatives have been re-presented to reflect this presentation and restated on adoption of the amendment to IAS 19 (see note 12).

Outlook

We are pleased with the performance of the May Gurney business which is operating in line with our expectations. The acquisition has consolidated the Group's position in support services, providing a range of complementary services to clients in the highways, transport and utilities sectors. The integration remains on course, with good customer retention, new contract extensions and revenue synergies. We are on track to deliver the anticipated £5m cost savings in this financial year.

The Construction and Property divisions continue to strengthen. It is encouraging that the upturn in construction workloads observed last year has been sustained, although margin pressure and cash generation will remain constrained as growth and inflationary pressures feed through the supply chain. Appetite for new commercial premises is growing and will considerably benefit of our Property division.

As reported at the year end, we are seeing the early signs of economic recovery across the country. Our wider portfolio of offerings, strong cost management, a growing order book of over £6bn together with our strong capital structure, positions us well for the future. We are encouraged by the prospects for the medium-term and remain on course to meet the Board's expectations for the current financial year.

Operations Review

Construction

The Construction division comprises the UK building, civil engineering and overseas businesses, which are highly skilled in the construction of a full range of building projects, together with power, waste and infrastructure facilities, transport, water and mining projects.

	6 months ended December 2013 £m	**6 months ended December 2012 £m**	***Change*** **%**
Revenue	**742**	627	***+18***
Operating profit*	**17.3**	13.5	***+28***
Operating margin*	**2.3%**	2.1%	

	December 2013	**June 2013**	
Order book (secure and probable)	**2,577**	2,229	***+15***
Cash	**272**	320	

*Underlying operating profit and operating margin are stated before exceptional items, amortisation of intangible assets relating to contract rights (see note 3). The prior year comparatives have been re-presented to reflect this presentation.

Revenue was up 18% at £742m (2012: £627m). This strong result followed significant awards in the period particularly through framework agreements and a solid contribution from the infrastructure and overseas businesses. Operating profit was up 28% to £17.3m (2012: £13.5m), reflecting the increasingly positive environment for construction. Operating margins remain robust at 2.3% (2012: 2.1%), however payment terms, particularly within the public sector, remain challenging. The cash position at 31 December 2013 of £272m reflects these shorter payment terms and the increasing proportion of infrastructure work which has an irregular cash profile and milestone payments.

The order book of secured or probable work, at £2.5bn, represents 100% of the forecast revenue for the current financial year and 66% of the following financial year with the availability of new work set to increase. This performance was supported by our strategic frameworks and alliances.

Education awards continued to underpin the division delivering 24% of the revenue in the period. The portfolio of Priority Schools Building Programme (PSBP) batched contracts was expanded to three by securing the East 2 and North East 2 batches valued at approximately £120m under the Academies Framework. In November the 4-year North and South Education Funding Agency Frameworks (EFA), valued at £4bn, were renewed, continuing our long-standing relationship with the EFA.

In July 2013 Kier was selected as preferred bidder on the £115m redevelopment of Broadmoor Hospital. This, together with a £43m contract to redevelop the mental health facilities for West London Mental Health Trust in Ealing, underpins Kier's position in the secure environment health construction sphere. The division obtained £170m of new contracts, excluding Broadmoor, arising from healthcare frameworks in the period to the end of January 2014 with a further pipeline identified in excess of £400m. When combined with the original seven-year ProCure 21 framework, Kier has been awarded 131 health projects worth circa £1bn since 2003.

The Group has also been successful in the defence sector. In December the Ministry of Defence (MOD) appointed Kier as one of five contractors to a 4-year £400m national framework for defence capital works up to a project value of £50m. Further stand-alone MOD project work may arise following the appointment in December of the Hercules joint venture (with Balfour Beatty) to deliver the £121m first phase of the Defence Technical Training Change Programme at RAF Lyneham.

The improvements in the affordable housing market have supported the delivery of completions in Kier Living providing medium and high-rise affordable housing, care homes and similar residential establishments. Over 70% of work is being delivered through long-term frameworks. The Homes and Communities Agency (HCA) DPP2 framework offers opportunities for direct contracting and it is anticipated that this will deliver additional schemes as the current HCA grant allocations lapse in May 2015.

In London, the £47m ArtHouse luxury residential scheme on the King's Cross Central Development for Argent completed and work is ongoing on the £68m Camden Civic Centre at King's Cross. Other opportunities exist on this scheme and, during the period, Kier was appointed preferred bidder for a further £88m mixed residential development including a new supermarket, commercial offices and a showcase pavilion at the heart of the development.

The UK infrastructure business goes from strength to strength. In October, as part of a three-way joint venture, Kier was awarded the £177m Deephams sewage treatment works upgrade contract in north London. The division generated £20m of rail sector projects on the back of the May Gurney acquisition and increased its penetration in the highways sector. Good progress was made in other core infrastructure sectors, including transport and power. In transport, Crossrail progresses well and financial close of the £450m Mersey Gateway bridge scheme is expected shortly. At the end of October, the UK Government concluded its discussions with EDF Energy with respect to Hinkley Point C nuclear power station. It is anticipated site preparation works, valued at more than £100m, previously announced, will begin in 2014. Work is well underway on an £80m project for Urenco.

Overseas, over £50m of work has been secured in the Caribbean, including the new Park Hyatt hotel in St. Kitts, and in the Middle East further projects totalling over £300m are under discussion.

The Construction division maintained a robust position across its key markets through its careful selection of projects and its strong position on frameworks. An ongoing focus on efficiencies is designed to ensure construction operating margins are maintained at approximately 2%. The resurgence of investment in infrastructure and new overseas projects are providing a pipeline of good quality work and a positive outlook in the medium-term.

Services

Following the acquisition of May Gurney, the division comprises seven businesses; housing maintenance, environmental, facilities management, highways maintenance, utilities, fleet & passenger services and waterways services.

	6 months to December 2013 £m	6 months to December 2012 £m	*Change %*
Revenue			
Pre May Gurney	**225**	211	***+7***
May Gurney	**338**	-	***-***
Total	**563**	211	***+167***
Operating profit*			
Pre May Gurney	**10.4**	9.0	***+15***
May Gurney	**14.0**	-	
Total	**24.4**	9.0	***+171***
Operating margin*	**4.3%**	4.3%	

	December 2013	June 2013	
Order book (secure and probable)	**3,583**	2,023	***+77***
Cash	**9**	30	

*Underlying operating profit and operating margin are stated before exceptional items, amortisation of intangible assets relating to contract rights. The prior year comparatives have been re-presented to reflect this presentation (see note 3).

Following the acquisition of May Gurney which trades in line with expectations, the Services business has transformed in scale and diversity creating a division with revenue of over one billion pounds per year and with market leading positions in a number of operational segments such as highways and utilities. The Group now has unrivalled access to local authorities for outsourcing and the ability to cross sell a broadened capability set to clients. In the first six months, the division has leveraged its position in key market sectors such as utilities, highways and water while both cost and revenue synergies were also achieved. All customer contracts were retained and multiple small value extension contracts were awarded. During the period new work of more than £450m was secured, underpinning the £3.6bn order book and reflecting the seasonality of awards.

Revenue was up 167% to £563m (2012: £211m). Underlying operating profit increased by 171% to £24.4m (2012: £9.0m) following the acquisition of May Gurney with operating margins remaining stable at 4.3% (2012: 4.3%), in line with expectations. The cash position at 31 December 2013 was £9m cash and included the opening net debt position of May Gurney of £37m. The underlying operating cash performance was therefore stable.

As highlighted previously, the performance of the environmental business, particularly the waste collection contracts for the Bristol and Cheshire West & Chester local authorities, acquired as part of May Gurney and identified during due diligence, continue to be challenging. This and other areas have necessitated a total £68 million fair value adjustment[1] of which £52m predominantly relates to the long duration loss-making environmental contracts. The return on capital of the fleet & passenger services business also remains an area for focus.

Specific contract awards included the £110m 3-year Sheffield housing maintenance contract with additional contracts from Aberdeenshire Council, Riverside Housing Association in Merseyside and through the North East Procure Framework. Kier was selected by Grainger plc, the UK's largest listed residential property owner and manager, to be the sole provider of tenant repairs and maintenance services across its UK portfolio. The contract, which commenced on 1 September 2013, is for a 10 year period and has an annual value of £5m.

[1]Excluding the impact of tax and acquired intangibles.

A new £107m 5-year utilities contract with Western Power Distribution commenced this month with extension potential, giving a foothold in power infrastructure and extending Kier's operational reach across Somerset and Bristol. In October the mobilisation of £200m highways maintenance contract for Suffolk County Council began and is proceeding well. Further streetlight contracts were retained for Thurrock Council, Waltham Forest Council and Lincolnshire Highways Alliance and a new contract awarded by Plymouth City Council.

Our facilities management business performed strongly. New contracts were awarded by Epsom and Ewell Borough Council, DTZ, London Fire PFI, Stoke and Staffordshire Fire PFI and the Welsh Government. The Welsh Government awarded a further enhancement contract for facilities management within its transport buildings. In February 2014 a FM contract with QinetiQ in the defence sector to provide services across a range of Ministry of Defence sites was awarded representing up to £8m per year, providing a new presence in this market. Kier has also been successful in retendering for the £20m Sheffield City Council FM contract.

Looking ahead, outsourcing opportunities are set to increase in both the public and private sectors particularly following the Comprehensive Spending Review and ongoing central Government pressure on local authority budgets. However, this budgetary pressure will inevitably mean that profitability on public sector contracts will be constrained. Key opportunities exist in the defence, utility, housing maintenance, highways maintenance and FM sectors. The conclusion of the bidding on the AMP6 water frameworks is awaited with Kier well positioned with its partners for further growth in the utilities sector. With increased Government focus on regulated sectors such as telecoms and water, further opportunities will arise.

Property

The Property Division encompasses property development, structured project finance and private and affordable homes businesses, and has a pipeline in excess of £1.5bn across our development and affordable housing activities.

	6 months to December 2013 £m	**6 months to December 2012 £m**	***Change %***
Revenue			
Property and PFI	**55**	68	***-19***
Homes	**72**	70	***+3***
Operating profit*			
Property and PFI	**10.6**	4.9	***+56***
Homes	**0.5**	2.2	

	December 2013	**June 2013**
Net operating assets		
Property and PFI	**142**	92
Homes	**256**	253

*Underlying operating profit is stated before exceptional items (see note 3).

Revenue for the period was £127m (2012: £138m) generating an operating profit of £11.1m (2012: £7.1m). The division continues to target and deliver a 15% return on capital while also generating revenues for our Construction and Services divisions. Capital investment of £100m has been made in the development portfolio consisting of retail, commercial, industrial and mixed-use schemes. In the period a final deferred consideration payment of £26m was made to Lloyds.

In line with the division's strategy, two forward funded deals contributed to this performance; a 39,000sq ft light industrial scheme in Bracknell that was 83% pre-let to Travis Perkins on which construction completed in the period and a 41,000sq ft distribution depot in Feltham that was fully pre-let to Geopost.

In December King's House, 174 Hammersmith Road, London was acquired and planning permission for a 60,000sq ft office over seven floors has been received and development will commence shortly.

In January 2014, a forward funded £41m sale of a membership warehouse club for Costco was completed at Western International Market, Hayes. The building is due for practical completion in summer 2014. Kier was also selected by Reading Borough Council as its preferred bidder to invest and deliver a mixed-use regeneration scheme of the area around the Civic Centre in Hosier Street, Reading.

Solum Regeneration, the joint venture with Network Rail, has in excess of £500m of mixed-use schemes in its portfolio. In the period a scheme was completed at Christchurch and at Walthamstow; 31 of the 34 private units were presold with the scheme now nearing construction completion. In addition, planning permission has been secured at Redhill. Post half year end the Epsom Travelodge was sold and Walthamstow Travelodge is under offer subject to completion of construction works.

The Watford Health Campus project reached its first critical milestone with the award of planning for the main link road through the site. Construction of the road using third party funding is expected to start later this year, enabling the phased land draw down and development of the remainder of the scheme, delivering 375,000sq ft of mixed-use development to the areas, including 650 new homes.

In the period, the 50% equity stake in the North Kent Police PFI project was sold and in February 2014 the Kier 50% equity stake in the Kent Schools project was also sold. The total consideration of these deals was £16m, representing a valuation discount rate on future cash flows of approximately 7%.

The portfolio of Kier's property investments is regularly refreshed. Financial close was reached on both the London Fire Service and Staffordshire Fire Service PFI schemes, which between them will provide twenty new fire stations with a combined value of £73m, while Kier is also providing the construction and facilities management services for both these projects. Financial close was achieved on the Woking PFI housing scheme in consortium with Thames Valley Housing totalling £80m. The scheme, which started on site in November 2013, will create 371 new homes, of which 224 will be available as affordable social rented housing and the remaining 147 homes will be for private sale, all delivered by Kier Partnership Homes. Kier was announced preferred bidder for the £62m North Ayrshire School design, build, finance and maintain (DBFM) scheme as part of the investment in the South West Hub scheme in Scotland and closed a scheme with Salford University to build and manage £81m of student accommodation.

Kier's current PFI portfolio consists of eight schemes, one at preferred bidder and the remainder in construction or operational. The committed equity investment stands at £21.5m (June 2013: £22.4m) of which £14.3m (June 2013: £14.9m) has been invested to date. The directors' valuation at a discount rate of 7.5% is £32m (June 2013: £35m).

The affordable housing business has experienced good growth driven by the strengthening recovery in the housing market together with the delivery of the HCA Affordable Housing Grant Programme. The number of active developments in the business grew by 40% with 119 homes delivered and the forward order book currently stands at more than £400m.

The private housing market is improving with average sales per site up by 11% compared with the same period last year. This has been helped by improving mortgage availability and the introduction of the Government Help to Buy scheme. In the half year, 263 completions took place and our full year order book stands at 74%. During the period, three new sites were set up and four sites for 426 units were acquired with secured planning permission on a further 295 units. The land bank currently stands at 4,168 plots (June 2013: 4,005).

In line with improvements in the economy, the Property division has a pipeline of schemes valued at more than £1.5bn across both the development and mixed-tenure housing businesses, providing a robust platform for the medium term.

Consolidated income statement

For the six months ended 31 December 2013

	Notes	Underlying items* £m	Non-underlying items* £m	Unaudited 6 months to 31 December 2013 Total £m	Underlying items*† £m	Non-underlying items* £m	Unaudited 6 months to 31 December 2012 Total† £m	Underlying items*† £m	Non-underlying items* £m	Year to 30 June 2013 Total† £m
Revenue										
Group and share of joint ventures	2	**1,432.0**	**-**	**1,432.0**	975.6	-	975.6	1,982.8	-	1,982.8
Less share of joint ventures		**(17.6)**	**-**	**(17.6)**	(55.6)	-	(55.6)	(39.8)	-	(39.8)
Group revenue		**1,414.4**	**-**	**1,414.4**	920.0	-	920.0	1,943.0	-	1,943.0
Cost of sales		**(1,294.0)**	**-**	**(1,294.0)**	(826.0)	-	(826.0)	(1,739.8)	(9.4)	(1,749.2)
Gross profit		**120.4**	**-**	**120.4**	94.0	-	94.0	203.2	(9.4)	193.8
Administrative expenses		**(78.5)**	**(27.6)**	**(106.1)**	(77.3)	(6.2)	(83.5)	(158.4)	(11.0)	(169.4)
Share of post-tax results of joint ventures		**0.4**	**-**	**0.4**	0.7	-	0.7	0.9	-	0.9
Profit on disposal of joint ventures		**2.1**	**-**	**2.1**	5.3	-	5.3	9.8	-	9.8
Profit from operations	2	**44.4**	**(27.6)**	**16.8**	22.7	(6.2)	16.5	55.5	(20.4)	35.1
Finance income		**0.6**	**-**	**0.6**	1.7	-	1.7	2.3	-	2.3
Finance cost		**(8.2)**	**(2.9)**	**(11.1)**	(5.0)	(0.7)	(5.7)	(10.2)	(1.3)	(11.5)
Profit before tax		**36.8**	**(30.5)**	**6.3**	19.4	(6.9)	12.5	47.6	(21.7)	25.9
Taxation	5	**(6.6)**	**5.2**	**(1.4)**	(3.5)	1.6	(1.9)	(5.1)	4.8	(0.3)
Profit for the period		**30.2**	**(25.3)**	**4.9**	15.9	(5.3)	10.6	42.5	(16.9)	25.6
Attributable to:										
Equity holders of the parent		**29.4**	**(25.3)**	**4.1**	15.1	(5.3)	9.8	41.5	(16.9)	24.6
Minority interests		**0.8**	**-**	**0.8**	0.8	-	0.8	1.0	-	1.0
		30.2	**(25.3)**	**4.9**	15.9	(5.3)	10.6	42.5	(16.9)	25.6
Earnings per share										
– basic	7	**54.6p**	**(47.0)p**	**7.6p**	38.6p	(13.6)p	25.1p	105.6p	(43.0)p	62.6p
– diluted	7	**54.2p**	**(46.6)p**	**7.6p**	38.5p	(13.5)p	25.0p	104.5p	(42.6)p	62.0p

*Non-underlying items include significant one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition. The prior year comparatives have been re-presented to reflect this presentation (see note 3).
†Restated on adoption of the amendment to IAS 19 (see note 12).

Consolidated statement of comprehensive income

For the six months ended 31 December 2013

	Unaudited 6 months to 31 December 2013 £m	Unaudited 6 months to 31 December 2012† £m	Year to 30 June 2013† £m
Profit for the period	**4.9**	**10.6**	**25.6**
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements in cash flow hedging instruments	**3.2**	-	4.7
Tax on share of joint venture fair value movements in cash flow hedging instruments	**(1.2)**	-	(1.7)
Fair value movements in cash flow hedging instruments	**(1.3)**	-	-
Tax on fair value movements in cash flow hedging instruments	**0.3**	-	-
Foreign exchange losses on long term funding of foreign operations	**(1.1)**	-	-
Total items that may be reclassified subsequently to the income statement	**(0.1)**	**-**	**3.0**
Items that will not be reclassified to the income statement			
Actuarial losses on defined benefit pension schemes	**(13.2)**	(12.5)	(7.1)
Tax on actuarial losses on defined benefit pension schemes	**(0.7)**	0.1	(1.2)
Total items that will not be reclassified to the income statement	**(13.9)**	**(12.4)**	**(8.3)**
Other comprehensive loss for the period	**(14.0)**	**(12.4)**	**(5.3)**
Total comprehensive (loss)/income for the period	**(9.1)**	**(1.8)**	**20.3**
Attributable to:			
Equity holders of the parent	**(9.9)**	(2.6)	19.3
Minority interests	**0.8**	0.8	1.0
	(9.1)	**(1.8)**	**20.3**

†Restated on adoption of the amendment to IAS 19 (see note 12).

Consolidated statement of changes in equity

For the six months ended 31 December 2013

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings[†] £m	Cash flow hedge reserve £m	Translation reserve £m	**Attributable to equity holders of the parent £m**	Minority interest £m	**Total equity £m**
At 30 June 2012	**0.4**	**55.0**	**2.7**	**110.0**	**(16.0)**	**0.2**	**152.3**	**1.9**	**154.2**
Profit or the period	-	-	-	9.8	-	-	**9.8**	0.8	**10.6**
Other comprehensive loss	-	-	-	(12.4)	-	-	**(12.4)**	-	**(12.4)**
Dividends paid	-	-	-	(17.3)	-	-	**(17.3)**	(0.2)	**(17.5)**
Issue of own shares	-	7.7	-	-	-	-	**7.7**	-	**7.7**
Purchase of own shares	-	-	-	(1.9)	-	-	**(1.9)**	-	**(1.9)**
Share-based payment charge	-	-	-	1.9	-	-	**1.9**	-	**1.9**
At 31 December 2012	**0.4**	**62.7**	**2.7**	**90.1**	**(16.0)**	**0.2**	**140.1**	**2.5**	**142.6**
Profit or the period	-	-	-	14.8	-	-	**14.8**	0.2	**15.0**
Translation differences	-	-	-	-	-	0.2	**0.2**	-	**0.2**
Other comprehensive income	-	-	-	4.1	3.0	-	**7.1**	-	**7.1**
Dividends paid	-	-	-	(8.5)	-	-	**(8.5)**	(0.2)	**(8.7)**
Issue of own shares	-	0.6	-	-	-	-	**0.6**	-	**0.6**
Purchase of own shares	-	-	-	0.2	-	-	**0.2**	-	**0.2**
Share-based payment charge	-	-	-	2.1	-	-	**2.1**	-	**2.1**
Tax on share based payments	-	-	-	(0.8)	-	-	**(0.8)**	-	**(0.8)**
At 30 June 2013	**0.4**	**63.3**	**2.7**	**102.0**	**(13.0)**	**0.4**	**155.8**	**2.5**	**158.3**
Profit or the period	-	-	-	4.1	-	-	**4.1**	0.8	**4.9**
Translation differences	-	-	-	-	-	(0.5)	**(0.5)**	-	**(0.5)**
Other comprehensive (loss)/income	-	-	-	(13.9)	1.0	(1.1)	**(14.0)**	-	**(14.0)**
Dividends paid	-	-	-	(25.0)	-	-	**(25.0)**	-	**(25.0)**
Issue of own shares	0.1	193.3	-	-	-	-	**193.4**	-	**193.4**
Purchase of own shares	-	-	-	(1.7)	-	-	**(1.7)**	-	**(1.7)**
Share-based payment charge	-	-	-	2.3	-	-	**2.3**	-	**2.3**
Tax on share based payments	-	-	-	0.1	-	-	**0.1**	-	**0.1**
At 31 December 2013	**0.5**	**256.6**	**2.7**	**67.9**	**(12.0)**	**(1.2)**	**314.5**	**3.3**	**317.8**

[†]Restated on adoption of the amendment to IAS 19 (see note 12).

Consolidated balance sheet

At 31 December 2013

	Notes	**Unaudited 6 months to 31 December 2013 £m**	Unaudited 6 months to 31 December 2012 £m	Year to 30 June 2013 £m
Non-current assets				
Intangible assets		**323.5**	26.6	30.0
Property, plant and equipment		**192.0**	104.2	109.2
Investment in joint ventures		**32.5**	21.3	29.7
Deferred tax assets		**28.7**	29.9	23.5
Trade and other receivables		**27.4**	30.3	29.6
Non-current assets		**604.1**	212.3	222.0
Current assets				
Inventories		**583.4**	414.0	399.4
Trade and other receivables		**441.8**	359.2	345.6
Income tax receivable		**14.4**	7.5	9.3
Assets held for sale		**-**	-	4.2
Cash and cash equivalents		**68.9**	105.2	152.3
Current assets		**1,108.5**	885.9	910.8
Total assets		**1,712.6**	1,098.2	1,132.8
Current liabilities				
Borrowings		-	(30.4)	-
Finance lease obligations		**(21.2)**	(1.3)	(2.7)
Other financial liabilities		**(0.3)**	-	(0.1)
Trade and other payables		**(912.2)**	(721.2)	(754.5)
Provisions		**(27.1)**	(2.5)	(17.6)
Current liabilities		**(960.8)**	(755.4)	(774.9)
Non-current liabilities				
Borrowings		**(207.2)**	(62.7)	(92.5)
Finance lease obligations		**(60.1)**	(6.9)	(11.0)
Other financial liabilities		**(1.3)**	-	(0.5)
Trade and other payables		**(8.6)**	(13.3)	(6.1)
Retirement benefit obligations	4	**(62.6)**	(63.7)	(49.7)
Provisions		**(72.6)**	(53.6)	(39.8)
Deferred tax liabilities		**(21.6)**	-	-
Non-current liabilities		**(434.0)**	(200.2)	(199.6)
Total liabilities		**(1,394.8)**	(955.6)	(974.5)
Net assets		**317.8**	142.6	158.3
Equity				
Share capital		**0.5**	0.4	0.4
Share premium		**256.6**	62.7	63.3
Capital redemption reserve		**2.7**	2.7	2.7
Retained earnings		**67.9**	90.1	102.0
Cash flow hedge reserve		**(12.0)**	(16.0)	(13.0)
Translation reserve		**(1.2)**	0.2	0.4
Equity attributable to equity holders of the parent		**314.5**	140.1	155.8
Minority interests		**3.3**	2.5	2.5
Total equity		**317.8**	142.6	158.3

Consolidated cash flow statement

For the six months ended 31st December 2013

	Notes	**Unaudited 6 months to 31 December 2013 £m**	Unaudited 6 months to 31 December 2012 £m	Year to 30 June 2013 £m
Profit before tax		**6.3**	20.9	43.0
Exceptional items		**22.0**	2.4	17.0
Net finance cost		**10.5**	2.5	6.3
Share of post-tax trading results of joint ventures		**(0.5)**	(0.8)	(0.9)
Normal contributions to pension fund in excess of pension charge		**1.9**	(6.0)	(12.2)
Non cash adjustments				
Equity settled share-based payments charge		**2.3**	1.9	4.0
Amortisation and impairment of intangible assets		**6.3**	2.2	4.3
Depreciation charges		**19.1**	5.8	12.7
Profit on disposal of joint ventures		**(2.1)**	(5.3)	(9.8)
Loss/(profit) on disposal of property, plant and equipment		**0.8**	(0.4)	(1.7)
Operating cash flows before movements in working capital		**66.6**	23.2	62.7
Special contributions to pension fund		**(4.0)**	(9.0)	(20.1)
Cash flow from exceptional items		**(25.4)**	-	(11.0)
Increase in inventories		**(103.9)**	(19.3)	(4.7)
(Increase)/decrease in receivables		**(33.2)**	19.1	35.2
Increase/(decrease) in payables		**39.5**	(88.0)	(69.0)
(Decrease)/increase in provisions		**(7.6)**	3.4	1.6
Cash inflow from operating activities		**(68.0)**	(70.6)	(5.3)
Interest received		**0.6**	1.7	2.3
Corporation tax refunds		**1.8**	-	3.5
Dividends received from joint ventures		**0.2**	0.2	0.2
Net cash generated from operating activities		**(65.4)**	(68.7)	0.7
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**1.4**	0.7	2.9
Proceeds from sale of joint venture		**5.1**	5.3	13.0
Purchases of property, plant and equipment		**(18.1)**	(7.7)	(22.1)
Purchase of intangible assets		**(1.3)**	-	(5.5)
Acquisition of subsidiaries		**(65.6)**	(30.3)	(31.5)
Net investment in joint ventures		**(3.5)**	(13.1)	(19.2)
Cash acquired		**(16.8)**	-	-
Net cash used in investing activities before exceptionals		**(98.8)**	(45.1)	(62.4)
Exceptional proceeds on disposal of plant business		**4.2**	13.0	13.0
Net cash used in investing activities		**(94.6)**	(32.1)	(49.4)
Cash flows from financing activities				
Issue of shares		**2.0**	6.8	7.0
Purchase of own shares		**(1.7)**	(1.9)	(1.7)
Interest paid		**(4.7)**	(3.5)	(5.8)
Increase in bank loans		**115.0**	62.7	92.5
Inflow from finance leases on property, plant and equipment		**15.0**	0.2	6.6
Finance lease repayments		**(11.7)**	(0.7)	(1.5)
Repayment of borrowings		**(20.0)**	-	(30.3)
Dividends paid to equity holders of the parent		**(17.3)**	(16.5)	(24.5)
Dividends paid to minority interests		**-**	(0.2)	(0.4)
Net cash used in financing activities		**76.6**	46.9	41.9
Decrease in cash and cash equivalents		**(83.4)**	(53.9)	(6.8)
Opening cash and cash equivalents		**152.3**	159.1	159.1
Closing cash and cash equivalents		**68.9**	105.2	152.3

Notes to the interim financial statements

1 Basis of preparation

Reporting entity

Kier Group plc (the Company) is a company domiciled in the United Kingdom. The condensed consolidated interim financial statements (interim financial statements) of the Company as at, and for the six months ended, 31 December 2013 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

The comparative figures for the financial year ended 30 June 2013 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Statement of compliance

These interim condensed financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure and Transparency Rules (DTR) of the Financial Services Authority. They do not include all of the information required for the full annual financial statements, and should be read in conjunction with the financial statements of the Group as at, and for the year ended, 30 June 2013.

These interim condensed financial statements were approved by the directors on 27 February 2014.

Significant accounting policies

The accounting policies applied by the Group in these interim financial statements are consistent with those applied by the Group in its financial statements as at, and for the year ended, 30 June 2013. The amendments to IAS 19 Employee Benefits are mandatory for the first time for the financial year ending 30 June 2014. The adoption of these amendments has resulted in a material impact on amounts reported in the current and prior year financial statements. The re-presentation and impact of the amendments to IAS 19 are set out in note 12.

Estimates and financial risk management

The preparation of interim financial statements requires the directors to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by the directors in applying the Group's accounting policies and the key sources of estimation uncertainty together with the Group's financial risk management objectives and policies were the same as those that applied to the financial statements as at, and for the year ended, 30 June 2013. The principal risks and uncertainties continue to be those which are set out on pages 43 and 45 of the Group's annual report and accounts for the year ended 30 June 2013, under the following headings: legal and regulatory; investment; pensions; finance and bonding facilities; macro-economic climate; people; health, safety and environmental; reputation; contract and build; services; information technology; land and property development acquisition; counterparty and business continuity.

Going concern

The Group has considerable financial resources, together with long term contracts with a number of customers and suppliers across its business activities. As a consequence, the directors believe that the Group is well placed to manage its business risks effectively. After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the Group's financial statements.

Segmental reporting

The Group comprises three divisions, Construction, Services and Property and this is the basis on which the Group reports its primary segmental information. Corporate includes unrecovered overheads and the charge for defined benefit pension schemes.

Segment information is based on the information provided to the chief executive who is the chief operating decision maker. The segments are strategic business units with separate management and have different core customers and offer different services. The segments are discussed in the chief executive's review on pages 3 to 8.

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

Notes to the interim financial statements
continued

2 Segmental reporting

Six months to 31 December 2013	Construction £m	Services £m	Property £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	742.2	562.9	126.9	-	1,432.0
Less share of joint ventures	(3.0)	-	(14.6)	-	(17.6)
Group revenue	739.2	562.9	112.3	-	1,414.4
Profit					
Group operating profit	17.2	24.4	8.7	(8.4)	41.9
Share of post-tax results of joint ventures	0.1	-	0.3	-	0.4
Profit on disposal of joint ventures	-	-	2.1	-	2.1
Profit from operations before non-underlying items	**17.3**	**24.4**	**11.1**	**(8.4)**	**44.4**
Exceptional items					
Business integration and transformation costs	(4.8)	(6.3)	(0.1)	(3.3)	(14.5)
Acquisition costs	-	-	-	(7.5)	(7.5)
	(4.8)	**(6.3)**	**(0.1)**	**(10.8)**	**(22.0)**
Amortisation of intangible contract rights	(0.3)	(5.3)	-	-	(5.6)
Profit from operations	**12.2**	**12.8**	**11.0**	**(19.2)**	**16.8**
Finance income/(cost)[2]	2.9	(5.2)	(6.8)	(1.4)	(10.5)
Profit before tax	**15.1**	**7.6**	**4.2**	**(20.6)**	**6.3**
Balance sheet					
Total assets excluding cash	452.1	691.0	439.4	61.2	1,643.7
Liabilities excluding borrowings	(604.2)	(422.7)	(41.4)	(119.3)	(1,187.6)
Net operating (liabilities)/assets[3]	**(152.1)**	**268.3**	**398.0**	**(58.1)**	**456.1**
Cash, net of borrowings	271.6	8.7	(320.8)	(97.8)	(138.3)
Net assets/(liabilities)	**119.5**	**277.0**	**77.2**	**(155.9)**	**317.8**

Six months to 31 December 2012†	Construction £m	Services £m	Property £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	626.9	210.8	137.9	-	975.6
Less share of joint ventures	(2.6)	-	(53.0)	-	(55.6)
Group revenue	**624.3**	**210.8**	**84.9**	**-**	**920.0**
Profit					
Group operating profit	13.3	9.0	1.4	(7.0)	16.7
Share of post-tax results of joint ventures	0.3	-	0.4	-	0.7
Profit on disposal of joint ventures	-	-	5.3	-	5.3
Profit from operations before non-underlying items	**13.6**	**9.0**	**7.1**	**(7.0)**	**22.7**
Exceptional items					
Closure and discontinuation of scaffolding business	(2.1)	-	-	-	(2.1)
Restructuring activities	(1.9)	(0.4)	-	-	(2.3)
	(4.0)	**(0.4)**	**-**	**-**	**(4.4)**
Amortisation of intangible contract rights	(0.1)	(1.7)	-	-	(1.8)
Profit from operations	**9.5**	**6.9**	**7.1**	**(7.0)**	**16.5**
Finance income/(cost)[2]	4.2	(0.4)	(6.7)	(1.1)	(4.0)
Profit before tax	**13.7**	**6.5**	**0.4**	**(8.1)**	**12.5**
Balance sheet					
Total assets excluding cash	376.1	118.0	456.3	42.6	993.0
Liabilities excluding borrowings	(574.3)	(106.8)	(67.6)	(113.8)	(862.5)
Net operating (liabilities)/assets[3]	**(198.2)**	**11.2**	**388.7**	**(71.2)**	**130.5**
Cash, net of borrowings	313.1	23.8	(315.6)	(9.2)	12.1
Net assets/(liabilities)	**114.9**	**35.0**	**73.1**	**(80.4)**	**142.6**

Notes to the interim financial statements
Continued

2 Segmental reporting continued

Year to 30 June 2013†	Construction £m	Services £m	Property £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	1,307.4	437.4	238.0	-	1,982.8
Less share of joint ventures	(6.2)	-	(33.6)	-	(39.8)
Group revenue	1,301.2	437.4	204.4	-	1,943.0
Profit					
Group operating profit	30.0	19.3	10.2	(14.7)	44.8
Share of post-tax results of joint ventures	0.4	-	0.5	-	0.9
Profit on disposal of joint ventures	-	-	9.8	-	9.8
Profit from operations before non-underlying items	**30.4**	**19.3**	**20.5**	**(14.7)**	**55.5**
Exceptional items					
Provision for loss on disposal of tower crane and other discontinued businesses	-	(3.2)	-	-	(3.2)
Costs relating to the acquisition of May Gurney	-	(0.4)	-	(1.4)	(1.8)
Business restructuring	(7.0)	(3.1)	-	-	(10.1)
Closure and discontinuation of Scaffolding and related businesses	(1.9)	-	-	-	(1.9)
	(8.9)	**(6.7)**	**-**	**(1.4)**	**(17.0)**
Amortisation of intangible assets relating to contract rights	(0.1)	(3.3)	-	-	(3.4)
Profit from operations	**21.4**	**9.3**	**20.5**	**(16.1)**	**35.1**
Finance income/(cost)[2]	7.6	(0.8)	(14.2)	(1.8)	(9.2)
Profit before tax	**29.0**	**8.5**	**6.3**	**(17.9)**	**25.9**
Balance sheet					
Total assets excluding cash	370.2	131.4	425.5	53.4	980.5
Liabilities excluding borrowings	(568.4)	(129.1)	(81.0)	(103.5)	(882.0)
Net operating (liabilities)/assets[3]	**(198.2)**	**2.3**	**344.5**	**(50.1)**	**98.5**
Cash, net of borrowings	319.3	30.0	(266.9)	(22.6)	59.8
Net assets/(liabilities)	**121.1**	**32.3**	**77.6**	**(72.7)**	**158.3**

1 Revenue is stated after the exclusion of inter-segmental revenue. Inter-segmental pricing is determined on an arm's length basis.
2 Interest was (charged)/credited to the divisions at a notional rate of 4.5% and 4.0% respectively.
3 Net operating (liabilities)/assets represent assets excluding cash, bank overdrafts, borrowings and interest-bearing inter-company loans.
†Restated on adoption of the amendment to IAS 19 (see note 12).

3 Non-underlying items

	Unaudited 6 months to 31 December 2013 £m*	Unaudited 6 months to 31 December 2012 £m*	Year to 30 June 2013 £m*
Acquisition costs	(7.5)	-	(1.8)
Business integration and transformation costs	(14.5)	(2.3)	(10.1)
Closure costs relating to Scaffolding and related businesses	-	(2.1)	(1.9)
Provision for loss on disposal of tower crane and other discontinued businesses	-	-	(3.2)
Exceptional items before tax	**(22.0)**	**(4.4)**	**(17.0)**
Taxation	3.3	1.0	3.7
Exceptional items after tax	**(18.7)**	**(3.4)**	**(13.3)**
Amortisation of intangible contract rights	(5.6)	(1.8)	(3.4)
Taxation on amortisation of intangible contract rights	1.3	0.4	0.8
Exceptional items and amortisation of intangible contract rights after tax	**(23.0)**	**(4.8)**	**(15.9)**
Acquisition discount unwind	(2.9)	(0.7)	(1.3)
Taxation	0.6	0.2	0.3
Exceptional items, amortisation and acquisition discount unwind after tax	**(25.3)**	**(5.3)**	**(16.9)**

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

Notes to the interim financial statements
continued

4 Retirement benefit obligations

The amounts recognised in the interim financial statements in respect of the Group's defined benefit schemes are as follows:

	Unaudited 6 months to 31 December 2013 £m				Unaudited 6 months to 31 December 2012† £m		Year to 30 June 2013† £m	
	Kier Group Pension Scheme £m	**Kier Sheffield LLP £m**	**Other Schemes £m**	**Total £m**	**Kier Group Pension Scheme £m**	**Kier Sheffield LLP £m**	**Kier Group Pension Scheme £m**	**Kier Sheffield LLP £m**
Opening (deficit)/surplus	(48.7)	(1.0)	-	(49.7)	(59.0)	1.2	(59.0)	1.2
Acquired deficit	-	-	(0.6)	(0.6)	-	-	-	-
Charge to income statement	(6.6)	(2.2)	-	(8.8)	(6.6)	(1.4)	(13.2)	(2.8)
Employer contributions	8.3	1.3	-	9.6	13.5	1.1	29.4	1.8
Actuarial losses	(9.6)	(1.6)	(1.9)	(13.1)	(10.6)	(1.9)	(5.9)	(1.2)
Closing deficit	**(56.6)**	**(3.5)**	**(2.5)**	**(62.6)**	**(62.7)**	**(1.0)**	**(48.7)**	**(1.0)**
Comprising:								
Total market value of assets	815.5	193.7	70.0	1,079.2	752.7	172.3	783.7	182.9
Present value of liabilities	(872.1)	(197.2)	(72.5)	(1,141.8)	(815.4)	(173.3)	(832.4)	(183.9)
Deficit	**(56.6)**	**(3.5)**	**(2.5)**	**(62.6)**	**(62.7)**	**(1.0)**	**(48.7)**	**(1.0)**
Related deferred tax asset	11.9	0.7	0.5	13.1	14.4	0.2	11.2	0.2
Net pension liability	**(44.7)**	**(2.8)**	**(2.0)**	**(49.5)**	**(48.3)**	**(0.8)**	**(37.5)**	**(0.8)**

†Restated on adoption of the amendment to IAS 19 (see note 12).

5 Taxation

The taxation charge for the six months ended 31 December 2013 has been calculated at 18% (June 2013: 14%, December 2012: 18%) of adjusted profit before tax, being profits adjusted for the Group's share in equity accounted joint ventures and excluding non-underlying items. This represents the estimated effective rate of tax for the year. Non-underlying items are taxed at their underlying rate.

The estimated effective rate of tax of 18% for the year to June 2014 reflects the reduction in the UK corporation tax rate from 23% to 21% with effect from 1 April 2014. In addition to reducing the Group's future tax charge this reduction in tax rate has had the effect of reducing the net deferred tax asset of £27.4m (Group £23.5m, joint ventures £3.9m) held at 30th June 2013 by £3.3m, with £2.8m being credited to the income statement and £6.1m being charged directly to the statement of comprehensive income.

	Unaudited 6 months to 31 December 2013			Unaudited 6 months to 31 December 2012			Year to 30 June 2013		
	Underlying items* £m	**Non-underlying items* £m**	**Total £m**	Underlying items*† £m	Non-underlying items* £m	Total† £m	Underlying items*† £m	Non-underlying items* £m	Total† £m
Profit before tax	36.8	(30.5)	6.3	19.4	(6.9)	12.5	47.6	(21.7)	25.9
Adjust: tax on joint ventures included above	-	-	-	(0.4)	-	(0.4)	(0.2)	-	(0.2)
Adjusted profit before tax	36.8	(30.5)	6.3	19.0	(6.9)	12.1	47.4	(21.7)	25.7
Current tax	(4.3)	4.3	-	(4.8)	1.6	(3.2)	2.4	3.8	6.2
Deferred tax (including effect of change in tax rate)	(2.3)	0.9	(1.4)	1.3	-	1.3	(7.5)	1.0	(6.5)
Total income tax expense in the income statement	**(6.6)**	**5.2**	**(1.4)**	**(3.5)**	**1.6**	**(1.9)**	**(5.1)**	**4.8**	**(0.3)**
Tax on joint ventures	-	-	-	0.4	-	0.4	-	-	-
Effective tax charge	**(6.6)**	**5.2**	**(1.4)**	**(3.1)**	**1.6**	**(1.5)**	**(5.1)**	**4.8**	**(0.3)**
Rate	**18%**		**22%**	16%		12%	11%		1%

*Non-underlying items include significant one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition. The prior year comparatives have been re-presented to reflect this presentation (see note 3).

†Restated on adoption of the amendment to IAS 19 (see note 12).

Notes to the interim financial statements
Continued

6 Dividends

Amounts recognised as distributions to equity holders in the period:	**Unaudited 6 months to 31 December 2013 £m**	Unaudited 6 months to 31 December 2012 £m	Year to 30 June 2013 £m
Final dividend for the year ended 30 June 2013 of 46.5 pence (2012: 44.5 pence)	**25.0**	17.3	17.3
Interim dividend for the year ended 30 June 2013 of 21.5 pence	**-**	-	8.5
	25.0	17.3	25.8

The interim dividend for the year ending 30 June 2014 of 22.5 pence per share (2013: 21.5 pence) has not yet been paid and so has not been included as a liability in these financial statements. The dividend totalling approximately £12.3m will be paid on 16 May 2014 to shareholders on the register at the close of business on 7 March 2014. A scrip dividend alternative will be offered.

7 Earnings per share

	Unaudited 6 months to 31 December 2013		Unaudited 6 months to 31 December 2012†		Year to 30 June 2013†	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**4.1**	**4.1**	9.8	9.8	24.6	24.6
Exclude exceptional items	**22.0**	**22.0**	4.4	4.4	17.0	17.0
Less tax thereon	**(3.3)**	**(3.3)**	(1.0)	(1.0)	(3.7)	(3.7)
Earnings excluding exceptional items	**22.8**	**22.8**	13.2	13.2	37.9	37.9
Exclude amortisation of intangible assets relating to contract rights	**5.6**	**5.6**	1.8	1.8	3.4	3.4
Less tax thereon	**(1.3)**	**(1.3)**	(0.4)	(0.4)	(0.8)	(0.8)
Earnings excluding exceptional items and amortisation of intangible contract rights	**27.1**	**27.1**	14.6	14.6	40.5	40.5
Exclude acquisition discount unwind	**2.9**	**2.9**	0.7	0.7	1.3	1.3
Less tax thereon	**(0.6)**	**(0.6)**	(0.2)	(0.2)	(0.3)	(0.3)
Adjusted earnings*	**29.4**	**29.4**	15.1	15.1	41.5	41.5
	million	**million**	million	million	million	million
Weighted average number of shares	**53.8**	**53.8**	39.1	39.1	39.3	39.3
Weighted average impact of LTIP and Sharesave scheme	**-**	**0.4**	-	0.1	-	0.4
Weighted average number of shares used for earnings per share	**53.8**	**54.2**	39.1	39.2	39.3	39.7
	pence	**pence**	pence	pence	pence	pence
Earnings per share	**7.6**	**7.6**	25.1	25.0	62.6	62.0
Earnings per share (excluding exceptional items)	**42.4**	**42.1**	33.8	33.7	96.4	95.5
Earnings per share (excluding exceptional items and amortisation of intangible contract rights)	**50.4**	**50.0**	37.3	37.2	103.1	102.0
Adjusted earnings per share (excluding exceptional items, amortisation of intangible contract rights and acquisition discount unwind)*	**54.6**	**54.2**	38.6	38.5	105.6	104.5

*Excludes the impact of significant one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition. The prior year comparatives have been re-presented to reflect this presentation (see note 3).

†Restated on adoption of the amendment to IAS 19 (see note 12).

Notes to the interim financial statements
Continued

8 Cash, cash equivalents and borrowings

	Unaudited 6 months to 31 December 2013* £m	Unaudited 6 months to 31 December 2012* £m	Year to 30 June 2013* £m
Net (debt)/funds consist of:			
Cash and cash equivalents	68.9	105.2	152.3
Borrowings	(207.2)	(93.1)	(92.5)
Net (debt)/funds	**(138.3)**	**12.1**	**59.8**
Reconciliation of net cash flow to movement in (debt)/net funds			
Increase in borrowings	(114.7)	(62.7)	(92.5)
Decrease in cash and cash equivalents	(83.4)	(53.9)	(6.8)
Opening net funds	59.8	128.7	159.1
Closing (debt)/net funds	**(138.3)**	**12.1**	**59.8**

*Excluding finance leases.

9 Share-based payments

The Group has established a Long-Term Incentive Plan (LTIP) under which directors and senior employees can receive awards of shares subject to the Group achieving targets. Further details of the LTIP were disclosed in the 2013 annual financial statements. 167,456 shares have vested under the LTIP during the six months to 31 December 2013.

On 21 October 2013 grants were made under the LTIP as follows:

Shares granted	614,866
Share price at grant	1,797p
Exercise price	nil
Option life	3 years
Expected volatility	28.6%
Dividend yield	3.78%
Risk-free interest rate	0.8%
Value per option:	
TSR element (based upon a stochastic model)	1,366.7p
EPS element (based upon the Black-Scholes model)	1,604.2p

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

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

10 Related parties

Transactions with key management personnel
The Group has entered into arrangements with Mission Recycling Worcester Limited ("Mission") to sell recycled commodities through its subsidiary, Pure Recycling Warwick Limited ("Pure"). Mission is deemed a related party of the Group as it shares a common director with Pure. The common director resigned with effect from 29 November 2013, and consequently this trade ceased to be with a related party from that date. The Group generated revenue levels of £2.3m in the period to 29 November 2013 (six months to 31 December 2012: £4.3m, year to 30 June 2013: £5.2m) on an arm's length basis through transactions with Mission.

Transactions with pension schemes

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

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

There have been no other significant changes in the nature and amount of related party transactions since the last annual financial statements as at, and for the year ended, 30 June 2013.

Notes to the interim financial statements
Continued

11 Acquisition of May Gurney Integrated Services PLC

The Group purchased the entire share capital of May Gurney Integrated Services PLC on the 8 July 2013 for a total consideration of £222.2m. May Gurney provides support services and delivers a wide range of essential front-line services to the public and regulated sectors.

The acquisition represented an excellent opportunity to accelerate Kier's strategy for its services division. The Kier Board believes the acquisition is highly complementary and will provide an increased breadth of services, skills, geographic coverage and operating efficiencies, representing an attractive proposition for its clients (and those of the enlarged Group) and enhanced value for the shareholder base of the enlarged Group.

The provisional fair value of the intangible assets acquired represents the fair value of customer contracts at the date of acquisition.

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

£7.5m of acquisitions costs were incurred in the period to December 2013 and expensed to the income statement as an exceptional item.

	Carrying value at acquisition £m	Fair value adjustment £m	Provisional fair value to Group £m
Intangible assets	71.7	35.0	106.7
Property, plant and equipment	108.6	(22.5)	86.1
Inventories	64.0	-	64.0
Trade receivables	77.2	-	77.2
Cash at bank	(16.8)	-	(16.8)
Borrowings	(20.0)	-	(20.0)
Trade and other payables	(149.1)	-	(149.1)
Taxation	3.8	3.2	7.0
Deferred tax liabilities	(0.4)	(14.2)	(14.6)
Retirement benefit obligations	(1.3)	0.7	(0.6)
Finance leases obligations	(62.6)	-	(62.6)
Provisions	-	(46.9)	(46.9)
	75.1	**(44.7)**	**30.4**
Goodwill			191.8
Total assets acquired			**222.2**

Satisfied by:	
Shares	183.8
Cash*	38.4
Total consideration	**222.2**

*Cash consideration includes a dividend of £3.8m.

Pro-forma information

The pro-forma consolidated results of the Group, as if the acquisition of May Gurney Integrated Services PLC had been made at the beginning of the period, would include revenue from continuing operations of £1,445.7m (compared to reported Group revenue of £1,432.0m) and profit before taxation of £5.9m (compared to reported profit before taxation of £6.3m). In preparing the pro forma results, revenue and costs have been included as if the businesses were acquired on 1 July 2013 and intercompany transactions had been eliminated. This information is not necessarily indicative of the results of the combined Group that would have occurred had the purchase actually been made at the beginning of the period presented, or indicative of the future results of the combined Group.

The May Gurney business contributed to the Group, revenue of £357.2m and profit after tax of £5.7m for the period 8 July 2013 to 31 December 2013.

Notes to the interim financial statements
Continued

12 Change of Accounting Policy

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

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

Reported profit			Unaudited 6 months to 31 December 2012			Year to 30 June 2013
	Profit before tax £m	Taxation £m	Profit after tax £m	Profit before tax £m	Taxation £m	Profit after tax £m
As previously reported	20.9	(3.9)	17.0	43.0	(4.4)	38.6
Impact of amendment to IAS 19						
Operating profit	(6.9)	1.6	(5.3)	(14.2)	3.4	(10.8)
Finance costs	(1.5)	0.4	(1.1)	(2.9)	0.7	(2.2)
	(8.4)	2.0	(6.4)	(17.1)	4.1	(13.0)
Restated	**12.5**	**(1.9)**	**10.6**	**25.9**	**(0.3)**	**25.6**

Earnings per share			Unaudited 6 months to 31 December 2012			Year to 30 June 2013
	Basic	Diluted	Adjusted	Basic	Diluted	Adjusted
As previously reported	41.4p	41.3p	53.5p	95.8p	94.8p	136.2p
Impact of amendment to IAS 19	(16.3)p	(16.3)p	(16.3)p	(33.2)p	(32.8)p	(33.2)p
Restated	**25.1p**	**25.0p**	**37.2p**	**62.6p**	**62.0p**	**103.0p**

Statement of comprehensive income			Unaudited 6 months to 31 December 2012			Year to 30 June 2013
	Actuarial losses £m	Deferred tax £m	Total £m	Actuarial losses £m	Deferred tax £m	Total £m
As previously reported	(20.9)	2.1	(18.8)	(24.2)	2.9	(21.3)
Impact of amendment to IAS 19	8.4	(2.0)	6.4	17.1	(4.1)	13.0
Restated	**(12.5)**	**0.1**	**(12.4)**	**(7.1)**	**(1.2)**	**(8.3)**

Responsibility statement of the directors in respect of the interim financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board

M P Sheffield
Chief Executive

H J Mursell
Finance Director

27 February 2014

Independent review report to Kier Group plc

INDEPENDENT REVIEW REPORT TO KIER GROUP PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2013 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Michael Froom
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

27 February 2014