KIER

News Release

For release on 25 February 2015 at 0700 hours

KIER GROUP PLC
INTERIM RESULTS FOR THE
SIX MONTHS ENDED 31 DECEMBER 2014

Kier Group plc, the integrated property, residential, construction and services group, announces its results for the six month period ended 31 December 2014.

	Six months ended 31 December 2014	Six months ended 31 December 2013	*Change %*
Revenue[+]	**£1,583m**	£1,432m	***+11***
Underlying operating profit*	**£44.2m**	£44.4m	***-***
Profit before tax*	**£35.9m**	£36.8m	***-2***
Underlying earnings per share	**51.1p**	54.6p	***-6***
Interim dividend per share	**24.0p**	22.5p	***+7***

[+] Group and share of joint ventures.
* Underlying operating profits, profit before tax and EPS are stated before exceptional items totalling £2.1m (2013: £22.0m), amortisation of intangible contract rights of £5.3m (2013: £5.6m) and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition £1.8m (2013: £2.9m). Reported operating profit was £36.8m (2013: £16.8m), reported profit before tax was £26.7m (2013: £6.3m) and reported EPS was 37.9p (2013: 7.6p).

Financial performance – good results in line with expectations

- Group revenue of £1.6bn up by more than 10%;
- Underlying operating profit of £44m in line with prior year
  - Residential and Services second half weighted, as expected;
- Divisional breakdown
  - Property - strong performance with ROCE of >15% and pipeline of >£1bn;
  - Residential – good forward sales position;
  - Construction
    - Resilient performance with margin of 2.1% due to a strict approach to bidding and robust execution;
    - Improved order book (secured and probable) of £2.6bn (June 2014: £2.5bn); fully secured for 2015;
  - Services
    - Margin of 4.2% (2013: 4.3%) reflecting mobilisation of larger, long-term contracts and expensing bid costs of recent contract successes;
    - Improved order book (secured and probable) of £3.9bn (June 2014: £3.7bn); fully secured for 2015;
- Net debt[†] position better than forecast at £156m (June 2014: net debt £123m), after £37m investment in Property and Residential;
- Underlying earnings per share of 51.1p (2013: 54.6p); and
- Interim dividend increased by 7% to 24p (2013: 22.5p), reflecting the Board's confidence in the future.

[†] Excluding finance lease obligations.

Operational performance and highlights

- Property
  - Completed eight key development schemes in the period; and
  - Recommended as preferred bidder for £400m ten-year Strategic Property Partnership with Staffordshire County Council and the Police and Crime Commissioner for Staffordshire.
- Residential
  - On track to deliver more than 2,000 completions in FY15; and
  - Place on two four-year regional local authority residential frameworks worth over £1bn providing housing stock to the south west of England and Wales.
- Construction
  - Frameworks valued up to £14bn secured or shortlisted with over £500m awards in the period; and
  - International order book almost doubled following the award of £150m of new work in Middle East.

Continued …..

- Services
  - Award of £200m four-year extension of the highways services contract with Northamptonshire County Council; and
  - Major wins in AMP6 cycle: Anglian Water, Bournemouth, Bristol, Canal River Trust and Thames Water totalling more than £700m.

Commenting on the results, Haydn Mursell, chief executive said:

"I am pleased to announce a good set of results, once again reflecting Kier's ability to deliver consistently whilst continuing to invest for medium-term growth. With improving economic conditions, and, notwithstanding pressures in the supply chain, our robust execution skills and delivery and disciplined approach to bidding and risk management continue to deliver good results."

"The Property development pipeline sits at more than £1bn and we have a strong forward sales position in the Residential division. The order books of the Construction and Services divisions have increased to £6.5bn with revenue now fully secured for 2015. With an improving market, we are seeing more and higher quality opportunities filling our pipeline."

"Now that May Gurney is fully integrated, we have a broad range of services across the Group and Kier is well positioned to work strategically with clients on how they can achieve their aims in light of financial challenges they face. Contract wins in this six-month period such as Anglian Water and Thames Water and the provision of an integrated offering to clients such as Northamptonshire and Staffordshire County Councils, are testimony to the appeal of Kier's integrated service, as described in Vision 2020."

"Significant positions on key frameworks, a disciplined approach to new work and an improving economy, position us well for the remainder of 2015 and over the medium term. A further increase in the interim dividend reflects our confidence in the future. We remain on course to meet the Board's expectations for the full year."

- ENDS -

Other information:
There will be a presentation of the preliminary results to analysts at 9.00am hours on 25 February 2015 at J.P. Morgan Cazenove, 60 Victoria Embankment, London EC4Y 0JP. A recorded video presentation will be available on www.kier.com/investors from 12 noon on 25 February.

- ENDS -

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Chief Executive's review

The Group has delivered good results for the six month period ended 31 December 2014. Group revenue for the six months ended 31 December 2014 increased by more than 10% to £1,583m (2013: £1,432m) with underlying operating profit of £44.2m (2013: £44.4m).

The Property division delivered a strong profit contribution of £14.0m (2013: £10.6m) from mainly non-speculative developments and the Residential division performed in line with expectations with a profit of £0.8m (2013: £0.5m). Construction operating margins were in line with expectations at 2.1% (2013: 2.3%), due to a strict approach to bidding and robust execution. Margins of 4.2% (2013: 4.3%) in the Services division were affected by the mobilisation of larger, long-term contracts and having expensed bid costs of recent contract wins. The division continues to target operating margins towards 5.0% for the full year.

The period ended with a net debt balance of £156m (June 2014: net debt £123m) after investment of £37m in the future growth of the Group. Net debt balances in the period averaged £192m. The working capital environment remains challenging. Underlying profit before tax for the six months of £35.9m (2013: £36.8m) and underlying earnings per share of 51.1p (2013: 54.6p) were both in line with expectations.

In November the Group further strengthened its capital structure through the completion of a £120m US Private Placement, thereby diversifying the source and maturities of the Group's debt facilities.

The Board is pleased to announce an interim dividend of 24.0p (2013: 22.5p), up 7%, reflecting the Board's progressive dividend policy. This will be paid on 15 May 2015 to shareholders on the register at 6 March 2015. A scrip dividend alternative will also be available.

Following the announcement on 1 December 2014, the Group confirms that it is still in discussions regarding a potential acquisition of Mouchel. There can be no certainty that an acquisition of Mouchel will be completed. A further announcement will be made if and when appropriate.

Board changes

On 1 January 2015, Bev Dew joined the Board as Group Finance Director from Balfour Beatty. Bev has also held senior roles at Lend Lease, Redrow and Invensys.

Outlook

The Property development pipeline sits at more than £1bn and we have a strong forward sales position in the Residential division. The order books of the Construction and Services divisions have increased to £6.5bn with revenue now fully secured for 2015. With an improving market, we are seeing more and higher quality opportunities filling our pipeline.

Now that May Gurney is fully integrated, we have a broad range of services across the Group and Kier is well positioned to work strategically with clients on how they can achieve their aims in light of financial challenges they face. Contract wins in this six-month period such as Anglian Water and Thames Water and the provision of an integrated offering to clients such as Northamptonshire and Staffordshire County Councils, are testimony to the appeal of Kier's integrated service, as described in Vision 2020.

Significant positions on key frameworks, a disciplined approach to new work and an improving economy, position us well for the remainder of 2015 and over the medium term. A further increase in the interim dividend reflects our confidence in the future. We remain on course to meet the Board's expectations for the full year.

Chief Executive overview

I am pleased to announce these results that reflect our selective approach to new work, strong execution skills and improving demand. These results have been achieved as both client and investor confidence returns to the UK, not just in the major cities but also across the regions. Internationally, our operations continue to grow, particularly in the Middle East.

The Property division is seeing increased demand for its capabilities as occupier demand and the availability of lending bank and institutional lending improves. The Residential division is benefiting from the UK housing shortage.

In the UK, the Construction sector is growing by 5% annually and Government focus and investment on infrastructure will underpin the growth of this division.

Public sector fiscal challenges in the UK have led to greater outsourcing opportunities for the business, including individual services and, increasingly, the provision of integrated services from the breadth of capabilities that exist within the Group.

We can now advise customers on how to maximise the value of their assets as they invest, build, maintain and renew them. Our abilities extend from negotiating finance and planning permissions to constructing major buildings and infrastructure, to providing facilities management and other essential maintenance services.

This more integrated approach has resulted in the Construction and Services divisions benefiting from over £50m of new revenue in the period from the development opportunities of the Property division. In addition, in the period new strategic partnerships were formed with Staffordshire County Council and Northamptonshire County Council reflecting a new approach to working with clients on their asset management and service requirements.

As set out in Vision 2020, our integrated offering now enables the Group to establish and develop broader and deeper relationships with our clients, supporting them to achieve their aims, whilst recognising the financial challenges they face.

Safety continues to be a priority and we remain committed, as part of our Vision 2020, to a zero accident/incident rate across our business. Sadly, during the period two road traffic accidents occurred in our Services division resulting in two employee fatalities. Both accidents are currently subject to further investigations.

Property

The division provides property development and PFI and structured project finance.

	Six months ended December 2014 £m	**Six months ended December 2013** £m**	***Change %***	**Year ended June 2014** £m**
Revenue				
Developments	**44**	40	*+11*	86
Structured finance and PFI	**5**	15	*-68*	16
Total	**49**	**55**	***-10***	**102**
Underlying operating profit*				
Developments	**12.4**	7.4	*+68*	11.2
Structured finance and PFI	**1.6**	3.2	*-50*	4.8
Total	**14.0**	**10.6**	***+32***	**16.0**
Average capital***	**December 2014**	**December 2013**		**June 2014**
Developments	**(76)**	(67)	*+13*	***(70)***
Structured finance and PFI	**-**	5	*-96*	***9***
Total	**(76)**	**(62)**	***+22***	***(61)***

* Underlying operating profits and margins are stated before exceptional items. Reported Property operating profit was £14.0 (2013: £10.5m).
** Prior year comparatives have been represented to reflect the split of the Property division into Property (PFI and Structured Finance) and Residential.
*** Equates to average net debt.

Revenue was £49m (2013: £55m), generating an underlying operating profit of £14.0m (2013: £10.6m), a strong and improving performance for the division. Eight key schemes were completed in the period including the disposal of Kier's equity stake in the Oldham Library project for a total consideration of £2.4m, representing a discount rate of 7%, which underpins the directors' valuation of the PFI portfolio of £38m. Property continues to target a minimum of a 15% return on capital, achieving well in excess of that in the six months ended December 2014 on an average capital of approximately £76m (June 2014: £62m). Its activities generated revenues for the Construction and Services divisions of more than £50m during the six month period. On the basis of improving occupier and investor activity in the market, the business is pursuing an increased number of opportunities and has a healthy development and structured finance pipeline of more than £1bn.

Property development

The development business concentrates mainly on non-speculative opportunities where elements of schemes are forward sold or pre-let, thereby reducing the associated risk and demands on the Group's capital. The division is seeing a number of opportunities in the industrial sector, with increasing occupier demand reflecting a lack of available new stock across our geographies.

The Trade City joint venture with Investec saw the practical completion of the scheme in Sydenham, which is already 60% pre-let. Planning approvals have been received on sites in Oxford and Bracknell. In December, our 50% share in the Trade City schemes at Hayes (60,000 sq ft) and Uxbridge (120,000 sq ft) were sold for £14m to the fund that invested at the outset. A new twelve-acre site in Thurrock, which will be developed as a mixture of Trade City and medium sized industrial units was secured. Supporting the expansion of the division's industrial offer into the North of England, a JV opportunity for the development of a 142,000 sq ft industrial scheme in Normanton was also secured and is already seeing good occupier interest.

Having been selected in summer 2014 by Total E&P UK to build its new 250,000 sq ft headquarters in Aberdeen, the office sector remains buoyant. In London, development continues of a 60,000 sq ft office in Hammersmith in JV with Investec and of a 46,500 sq ft office development on Victoria Embankment, in which Kier holds a 16% equity stake and is the construction partner. In Leeds, the construction of a 93,000 sq ft office development in the city centre has commenced.

In the retail and mixed-use sector, construction continues of the £25m retail and leisure development at Catterick, in JV with Lingfield. The scheme is 90% pre-let, continues on programme and completion is expected in summer 2015. In addition, a 68,000 sq ft leisure scheme in Walsall, comprising a cinema and food and beverage outlets is fully pre-let. In October, Reading Gateway, a site north of junction 11 of the M4, was acquired for £29m with a proposal to develop a comprehensive mixed-use scheme comprising approximately 250 new homes, a hotel and light industrial and trade counter space. The completed scheme is expected to have an end value in the region of £75m.

In December 2014, the £240m Watford Health Campus project reached a significant milestone with the award of planning for the masterplan of the whole site.

Solum Regeneration, our joint venture with Network Rail, has been extended for an additional ten year period to 2028. Solum has in excess of £500m of mixed-use schemes in its portfolio and a number of significant regeneration schemes are underway including Guildford, Haywards Heath, Redhill, Twickenham and Walthamstow.

As announced in December, Kier has been recommended as the preferred bidder for a major new £400m ten-year Strategic Property Partnership with Staffordshire County Council and the Police and Crime Commissioner for Staffordshire. The joint venture will commence in April 2015, with a potential five-year extension. It will include a full range of property services including development, disposal, acquisition, construction, asset management and facilities management. Other regional public sector organisations will also be able to commission through the partnership.

PFI and Structured Finance

The strategy to recycle assets and sell mature PFI investments continued with the sale of Kier's equity stake in the Oldham Library project for a total consideration of £2.4m, representing a valuation discount on future cash flows of approximately 7%. The current portfolio of PFI projects comprises eight schemes, two at preferred bidder stage and the remainder in construction or operational. The committed equity investment stands at £23.5m (June 2014: £19.5m) of which £14.5m (June 2014: £11.1m) has been invested to date. The directors' valuation at a discount rate of 7.5% is £38m (June 2014: £34m).

During the period, a JV with Amber Infrastructure for the delivery of student accommodation schemes was established with the intention of developing up to three schemes per annum. Work is underway on the first scheme in Glasgow, valued at £20m, for the delivery of 264 rooms in time for the 2015/16 academic year, and additional student accommodation opportunities are being pursued. Building on previous awards on the North and East Ayrshire Schools DBFM schemes, Kier was appointed preferred bidder by South West Scotland to design, build, finance and maintain the £25m Ayr Academy in South Ayrshire.

In November, Biogen commissioned its plant at Baldock in Hertfordshire bringing the number of operational plants to five. Two further plants are under construction at Merevale, Warwickshire and at Rhondda, South Wales, bringing the total number of plants either operating or in construction to seven. Kier has a 50% investment in Biogen (UK) Holdings Ltd which develops, constructs and operates these facilities.

Property outlook

With increased occupier demand and financial support from banks and major institutions, the Property division continues to perform strongly. New sectors such as student accommodation provide further opportunities to replenish the PFI and structured finance portfolio as the more mature investments are recycled. The division continues to generate revenue for the Construction and Services divisions and is benefiting from access to the Services division's clients as more integrated, development style opportunities arise. The division remains focused on its non-speculative strategy, optimising the Group's capital and targeting a minimum of 15% return on capital.

Residential

Kier Residential, branded Kier Living, includes private house building and affordable mixed tenure housing partnerships.

	Six months ended December 2014 £m	**Six months ended December 2013** £m**	***Change %***	***Year ended June 2014** £m***
Revenue				
Private (Kier owned land)	**52**	49	*+6*	111
Mixed tenure	**38**	23	*+65*	71
Total	**90**	**72**	***+25***	**182**
Underlying operating profit*				
Private (Kier owned land)	**1.4**	1.0	*+40*	1.8
Mixed tenure	**(0.6)**	(0.5)	*+20*	3.2
Total	**0.8**	**0.5**	***+60***	**5.0**
	December 2014	**December 2013**		**June 2014**
Average capital***				
Private (Kier owned land)	**(218)**	(206)	*+6*	(213)
Mixed tenure	**(36)**	(13)	*+177*	(20)
Total	**(254)**	(219)	*+16*	(233)
Land bank units	**3,643**	**4,168**	***-13***	**3,672**

* Underlying operating profits and margins are stated before exceptional items. Reported Residential operating profit was £0.8m (2013: £0.5m).
** Prior year comparatives have been represented to reflect the split of the Property division into Property (PFI and Structured Finance) and Residential.
*** Equates to average net debt.

The Group's house-building activities were merged into one division, Kier Residential, in July 2014. Its results were in line with expectations with revenue of £90m (2013: £72m) and an underlying operating profit of £0.8m (2013: £0.5m). As highlighted in November, a significant proportion of the affordable housing completions are anticipated in the second half of the financial year as the current affordable housing programme funding round ends on 31 March 2015. Approximately 700 private sale completions are expected on Kier owned land during this financial year, with sales rates in excess of the national average. A number of new marketing complexes are due to open across the UK in the second-half of the year. The division continues to benefit from the sustained recovery in the UK housing market.

The division has experienced good levels of new business opportunities in all housing sectors from private land through mixed tenure housing to contract build for private and public sector bodies. The market has been buoyed by the UK economic recovery, the need for more and improved housing across the UK, increased public expenditure on social infrastructure and housing, liquidity and availability of mortgage finance including "Help to Buy" and the need for more energy efficient homes.

Mixed tenure

The mixed tenure business is on schedule to deliver approximately 1,500 completions for this financial year. As anticipated, performance will be second half weighted due to the current affordable programme funding round ending on 31 March 2015.

During the period, the mixed tenure business invested £23m and completed 436 units. The affordable homes business included success on two local authority frameworks: the four-year Westworks Framework covering provision of services to thirteen registered providers of homes worth over £1bn across the south and south west of England and south Wales and the Westward Framework which also runs for four years and has an overall value of approximately £40m covering Devon and Cornwall for Westcountry and Tarka Housing Associations and Horizon Homes.

Private

The rate of private sales over the period ran ahead of the same period last year with a total of 274 private sales completed at a rate of 0.7 units per trading site per week. The division remains on track to deliver c.700 homes by the year end. The Government's Help to Buy scheme contributed 45% to sales and the average private selling price to date is £197k. There has been an easing of supply chain inflationary pressures over the period with material and subcontract pricing running within forecast rates.

The private homes business completed the purchase of over 250 plots across three sites, which when combined with the unit and land sales, resulted in the land bank reducing to 3,643 plots (June 2014: 3,672).

Residential outlook

Looking forward to 2020, the division is targeting a return on capital of 15%. Growth is expected to come from mixed tenure housing, responding to structural demand in the UK housing market, the appetite from public sector bodies to invest in their housing stock and the increasing number of opportunities arising from HCA, local authority and housing associations. We continue to recycle the private land bank capital to support the progress of the mixed tenure business with the division being self sufficient from a capital perspective over the medium term. The skillset of the Residential division is much in demand by local authority clients, many of which are existing Services clients looking to address their future local housing challenges.

Construction

The Construction division comprises the UK building, civil engineering and international businesses, which undertakes a wide range of building, infrastructure, transport, water and mining projects.

	Six months ended December 2014 £m	**Six months ended December 2013 £m**	***Change %***
Revenue	**874**	742	*+18*
Underlying operating profit*	**18.0**	17.3	*+4*
Operating margin*	**2.1%**	2.3%	
	December 2014	**June 2014**	
Order book (secure and probable)	**2.6bn**	**2.5bn**	*+4*

* Underlying operating profits and margins are stated before exceptional items and amortisation of intangible assets relating to contract rights. Reported Construction operating profit was £17.8m (2013: £12.2m).

The Construction division delivered a good performance with significant revenue growth up 18% to £874m (2013: £742m). Underlying operating profit was up 4% to £18.0m (2013: £17.3m) as a result of a strict approach to bidding and robust execution. Operating margins remained resilient at 2.1% (2013: 2.3%). The working capital environment has become more stable, although its management remains a key area of focus.

The level and quality of new work continues to improve across the UK. The order book of secured or probable work has increased to £2.6bn and represents 100% of the forecast revenue for the current financial year. Inflationary pressures continue to present challenges and are being closely managed. The balance of public versus private sector work is 46% and 54% respectively. The division is well positioned in its key sectors.

Public sector construction frameworks continue to flourish. In the period, the Group secured or was shortlisted on construction frameworks valued up to £14bn and awards from those frameworks totalled over £500m. In August, Kier was shortlisted for the Southern Construction Framework, one of the UK's largest regional frameworks, valued at £4bn, with announcement of the successful framework members expected shortly. Under the Scape Minor Works Framework, there is a growing portfolio of repeat business which resulted in £72m of awards in the period.

In the education sector, we secured new frameworks including the Education Funding Agency's (EFA) Regional Framework estimated to be worth up to £5bn for four years and covering smaller school-building and refurbishment projects up to £12m. Kier has a place on all six parts of the framework and has been awarded £20m of EFA awards in the last three months.

On the National Constructors Framework, Kier was selected as preferred bidder for five batches of projects comprising seventeen schools with a total value of £173m and is bidding for two further batches worth over £70m. Other education awards included a £57m design, build, finance and maintain package for South Ayrshire Council and Hub South West Scotland in Troon and Ayr. Kier was also named preferred bidder for three further Priority Schools Building Programmes (PSBP) in Brent, London and Yorkshire worth £160m.

In health, the Procure 21+ Framework continues to provide a steady pipeline of opportunities resulting in four awards in the period: United Lincoln, Milton Keynes, Royal Cornwall and Birmingham Women's hospitals totalling £118m.

In London, residential and commercial confidence continues to drive the market. Further commercial developments are coming on stream at Kings Cross with a new £70m office block as part of the Argent development. Work has also commenced on the £58m Victoria Embankment development, in partnership with Kier Property. Kier is also increasing its profile in the biotech sector with developments in Cambridge and the surrounding area. This includes a £70m 14,000 sq ft laboratory for the University of Cambridge on the Cambridge Biomedical Campus, with expected completion in summer 2017.

Back in December 2013, Kier was appointed to the Defence Infrastructure Organisation (DIO) design and build framework, established to deliver up to £250m of MOD construction projects in Scotland. In addition, and building on previous successes on the £400m National Capital Works Framework, Kier has been shortlisted for regional DIO frameworks covering south-east and south-west England.

The division also benefits from working with the Property division, delivering schemes including the Total HQ in Aberdeen, student accommodation in Glasgow, an office development on Victoria Embankment in London and further schemes in Newcastle and Catterick.

The infrastructure business continues to expand with revenue approaching £200m following strong contributions across all sectors. In November Kier was awarded a place on the Highways Agency's £1.15bn five-year collaborative delivery framework for schemes valued between £25m and £100m. Building on its highways capabilities, in January the infrastructure business was awarded the £33m upgrade to the A30 to the north east of Bodmin in Cornwall. Improvements include widening and realigning the existing carriageway to provide additional lanes with central reservation and verges.

The energy from waste projects in both Plymouth and Wakefield are on course to complete in the current financial year. Other key projects include the £450m Mersey Gateway scheme and our continuing Crossrail activity. A joint venture with Carillion and Eiffage for the High Speed Two (HS2) project has also recently been formed. There continues to be good visibility of revenue from the infrastructure operations over the next few years in all our sectors.

The international business has progressed well in the period on the basis of its strong relationships and record in the Middle East. In the UAE, awards included a £115m Rotana resort hotel and a £15m data centre for a leading bank in Abu Dhabi and, last month, a £100m mixed-use development and two infrastructure contracts for £15m on a major new theme park project in Dubai. In Saudi Arabia, a £32m infrastructure project has been secured with a leading Saudi state-owned company in the eastern region. Work on these projects has now commenced. Operations in the Caribbean and Hong Kong continue to progress.

Construction outlook

The Construction division continues to perform well, maintaining a robust position in its key markets through its careful selection of projects. The order book of £2.6bn represents 100% of the forecast revenue for the current financial year, having been awarded more than £1bn of new work in the six-month period, and positions the division for continued growth. The demand for infrastructure projects in the UK, assisted by the recovering UK market and the buoyancy of the Middle East support a controlled expansion and an improving margin over the medium term.

Services

The division comprises utilities and waterway services, highways, housing maintenance, facilities management, environmental services and fleet & passenger services.

	Six months ended December 2014 £m	**Six months ended December 2013 £m**	***Change %***
Revenue	**569**	563	*+1*
Underlying operating profit*	**23.7**	24.4	*-3*
Operating margin*	**4.2%**	4.3%	
	December 2014	**June 2014**	
Order book (secure and probable)	**3.9bn**	**3.7bn**	*+5*

* Underlying operating profits and margins are stated before exceptional items and amortisation of intangible assets relating to contract rights. Reported Services operating profit was £18.0m (2013: £12.8m).

Services revenue was £569m (2013: £563m), underlying operating profit of £23.7m (2013: £24.4m) generating an operating margin of 4.2% (2013: 4.3%), all in line with expectations. As anticipated, the operating margin was affected by an intense period of contract mobilisation and having expensed bidding costs associated with recent contract successes particularly in the Utilities business. The division remains on course for operating margins heading towards 5.0% for the full year. With the integration of May Gurney now complete, the division is focused on promoting a broader range of services to customers and a number of new significant contract awards were won in the period on that basis. The order book of £3.9bn, excluding £2bn of potential extensions, provides all of the forecast revenue for 2015 and good visibility over the medium term.

Utilities

The utilities business performed strongly in the period culminating in Kier being named in December as preferred bidder, in joint venture, as one of two alliance partners for Thames Water's major new £1.0bn infrastructure alliance. The contract has an estimated value to the joint venture of £500m over the next five years and demonstrates Kier's position as a market leader in utilities management and maintenance. The contract is expected to commence in April 2015 and will run for up to 15 years. This includes an option to extend the arrangements to the AMP7 and AMP8 business plans.

Further AMP6 awards in the period included three contracts with Anglian Water with an estimated total contract value of over £200 million over five years; an initial two year £10m contract with Bournemouth Water with an option to extend for five years, which commenced in July 2014; a five-year £100m network maintenance services programme with Bristol Water; and a six-year £180m National Engineering & Construction Contract (NECC) for England and Wales for the Canal & River Trust. In addition, the Group secured a two-year £14m contract with Severn Trent on the Asset Management Solutions (AMS) framework and a three year extension with South West Water on the MEICA Framework commencing April 2015 with an estimated value of £15m. These contract successes demonstrate customer confidence in the Group's greater capability following the May Gurney acquisition.

Highways

The highways business performed well in the six month period, benefiting from increased Government focus on infrastructure maintenance. In December 2014, Northamptonshire County Council approved a £200m four-year extension of the highways services contract for Kier, together with its JV partner WSP. The extension of the contract, which was due for renewal in 2016, will enhance the partnership between the two organisations and bring improved efficiency and savings for the Council. The Lincolnshire highways contract was extended for one year until March 2017 at an estimated value of £37m. In addition, our East Sussex highways contract has been extended until April 2016 with an estimated value of £15m. Discussions continue with a number of existing local authority clients, including Surrey County Council to develop a more strategic approach to their maintenance requirements. In addition to local authorities and councils, the Highways Agency also remains a key opportunity for our highways maintenance business.

Housing maintenance

In October, the four-year £140m repairs and maintenance contract with Genesis Housing Association was mobilised successfully. Under the contract, both responsive and planned repairs are provided to 33,000 homes. A £4m short term contract with Metropolitan Housing was mobilised at short notice in the autumn, with an end date of December 2015. Building on its presence with Sheffield City Council, three additional contracts have been secured, including a £30m five-year contract to provide roofing maintenance works. In addition, a £4m two-year contract was awarded for external wall insulation, re-roofing and energy insulation for high rise developments in Stoke on Trent and a two-year £1m contact with South Essex Homes for kitchen and bathroom refurbishments. A number of frameworks have also been secured or retained in the period, including planned works for Notting Hill Housing, kitchen and bathroom replacements for the Eastern Shires Purchasing Organisation (ESPO) and the capital works programme for Thurrock council. This month, a five-year £6m planned works contract with Richmondshire District Council in North Yorkshire has also been awarded. After the period end, a five-year extension to the existing repairs and maintenance contract with Barnsley Council covering 9,000 homes, was also awarded. The contract extension is valued at £55m over the period.

Facilities Management

The facilities management business continued to make progress in the six-month period with new awards from Kent County Council and Solent NHS. Contracts with Fusion Lifestyle and Westminster Kingsway were both retained and two PFI contracts for London Fire Brigade and Stoke and Staffordshire Fire Rescue Authority were successfully mobilised. A new three-year contract has been secured and mobilised with the London Borough of Camden, supporting the Construction division which built Camden's new headquarters at Kings Cross.

With a renewed focus on building relationships with existing clients in both the public and private sector and a goal to extend its geographic reach across the UK, the forward pipeline continues to improve.

Other

The performance of the environmental business, particularly the waste collection contracts for the Bristol and Cheshire West & Chester local authorities, are stable but challenging. As previously highlighted, the Group applies strict return and capital allocation hurdles to all its businesses and will continue to review businesses which are unable to achieve these criteria. The fleet and passenger services business has been under review and discussions are underway with a number of parties interested in the business.

Services outlook

The Services division is now able to deliver a broad range of services to clients. It continues to perform well with a number of important contract wins such as Anglian Water, Thames Water, the Canal and River Trust and Northamptonshire Highways. The increased Government focus on utilities and highways and the fiscal pressures on local authorities and public sector generally are expected to continue to provide further opportunities to offer services from across the Group's operations. The cross selling of these skills across the Services division and more widely across the Group provides significant opportunity.

Consolidated income statement

For the six months ended 31 December 2014

	Notes	Unaudited 6 months to 31 December 2014 Underlying items* £m	Non-underlying items* £m	Total £m	Unaudited 6 months to 31 December 2013 Underlying items* £m	Non-underlying items* £m	Total £m	Year to 30 June 2014 Underlying items* £m	Non-underlying items* £m	Total £m
Revenue										
Group and share of joint ventures	2	**1,582.6**	**-**	**1,582.6**	1,432.0	-	1,432.0	2,985.2	-	2,985.2
Less share of joint ventures	2	**(10.1)**	**-**	**(10.1)**	(17.6)	-	(17.6)	(30.9)	-	(30.9)
Group revenue		**1,572.5**	**-**	**1,572.5**	1,414.4	-	1,414.4	2,954.3	-	2,954.3
Cost of sales		**(1,438.6)**	**-**	**(1,438.6)**	(1,294.0)	-	(1,294.0)	(2,699.5)	(3.5)	(2,703.0)
Gross profit		**133.9**	**-**	**133.9**	120.4	-	120.4	254.8	(3.5)	251.3
Administrative expenses		**(91.6)**	**(7.4)**	**(99.0)**	(78.5)	(27.6)	(106.1)	(174.5)	(49.5)	(224.0)
Share of post-tax results of joint ventures		**0.6**	**-**	**0.6**	0.4	-	0.4	1.6	-	1.6
Profit on disposal of joint ventures		**1.3**	**-**	**1.3**	2.1	-	2.1	6.1	-	6.1
Profit from operations	2	**44.2**	**(7.4)**	**36.8**	44.4	(27.6)	16.8	88.0	(53.0)	35.0
Finance income		**1.0**	**-**	**1.0**	0.6	-	0.6	2.2	-	2.2
Finance cost		**(9.3)**	**(1.8)**	**(11.1)**	(8.2)	(2.9)	(11.1)	(17.1)	(5.3)	(22.4)
Profit before tax		**35.9**	**(9.2)**	**26.7**	36.8	(30.5)	6.3	73.1	(58.3)	14.8
Taxation	5	**(7.4)**	**1.9**	**(5.5)**	(6.6)	5.2	(1.4)	(13.9)	9.8	(4.1)
Profit for the period		**28.5**	**(7.3)**	**21.2**	30.2	(25.3)	4.9	59.2	(48.5)	10.7
Attributable to:										
Equity holders of the parent		**28.2**	**(7.3)**	**20.9**	29.4	(25.3)	4.1	58.5	(48.5)	10.0
Minority interests		**0.3**	**-**	**0.3**	0.8	-	0.8	0.7	-	0.7
		28.5	**(7.3)**	**21.2**	30.2	(25.3)	4.9	59.2	(48.5)	10.7
Earnings per share										
– basic	7	**51.1p**	**(13.2)p**	**37.9p**	54.6p	(47.0)p	7.6p	107.7p	(89.3)p	18.4p
– diluted	7	**50.7p**	**(13.1)p**	**37.6p**	54.2p	(46.6)p	7.6p	106.9p	(88.6)p	18.3p

* 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.

Consolidated statement of comprehensive income

For the six months ended 31 December 2014

	Unaudited 6 months to 31 December 2014 £m	Unaudited 6 months to 31 December 2013 £m	Year to 30 June 2014 £m
Profit for the period	**21.2**	**4.9**	**10.7**
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements in cash flow hedging instruments	**0.5**	3.2	15.1
Tax on share of joint venture fair value movements in cash flow hedging instruments	**(0.1)**	(1.2)	(3.6)
Fair value movements in cash flow hedging instruments	**(0.4)**	(1.3)	(1.7)
Tax on fair value movements in cash flow hedging instruments	**0.1**	0.3	0.3
Foreign exchange gains/(losses) on translation of foreign operations	**3.8**	(1.1)	(4.0)
Total items that may be reclassified subsequently to the income statement	**3.9**	**(0.1)**	**6.1**
Items that will not be reclassified to the income statement			
Actuarial losses on defined benefit pension schemes	**(30.5)**	(13.2)	(18.7)
Tax on actuarial losses on defined benefit pension schemes	**6.1**	(0.7)	(4.9)
Tax on provisions	**-**	-	(1.9)
Total items that will not be reclassified to the income statement	**(24.4)**	**(13.9)**	**(25.5)**
Other comprehensive loss for the period	**(20.5)**	(14.0**)**	**(19.4)**
Total comprehensive income/(loss) for the period	**0.7**	(9.1)	**(8.7)**
Attributable to:			
Owners of the parent	**0.4**	(9.9)	(9.4)
Non-controlling interests	**0.3**	**0.8**	0.7
	0.7	**(9.1)**	**(8.7)**

Consolidated statement of changes in equity

For the six months ended 31 December 2014

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Merger reserve £m	**Attributable to owners of the parent £m**	Non-controlling interest £m	**Total equity £m**
At 30 June 2013	**0.4**	**63.3**	**2.7**	**102.0**	**(13.0)**	**0.4**	**-**	**155.8**	**2.5**	**158.3**
Profit for 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	9.7†	-	-	-	-	183.6†	**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**	**73.0†**	**2.7**	**67.9**	**(12.0)**	**(1.2)**	**183.6†**	**314.5**	**3.3**	**317.8**
Profit for the period	-	-	-	5.9	-	-	-	**5.9**	(0.1)	**5.8**
Other comprehensive (loss)/income	-	-	-	(11.6)	9.1	(2.4)	-	**(4.9)**	-	**(4.9)**
Dividends paid	-	-	-	(12.3)	-	-	-	**(12.3)**	(0.2)	**(12.5)**
Issue of own shares	0.1	0.7	-	-	-	-	-	**0.8**	-	**0.8**
Purchase of own shares	-	-	-	0.6	-	-	-	**0.6**	-	**0.6**
Share-based payment charge	-	-	-	1.7	-	-	-	**1.7**	-	**1.7**
Tax on share based payments	-	-	-	0.4	-	-	-	**0.4**	-	**0.4**
Transfers	-	-	-	(1.2)	-	-	1.2	**-**	-	**-**
At 30 June 2014	**0.6**	**73.7**	**2.7**	**51.4**	**(2.9)**	**(3.6)**	**184.8**	**306.7**	**3.0**	**309.7**
Profit for the period	-	-	-	20.9	-	-	**-**	**20.9**	0.3	**21.2**
Other comprehensive (loss)/income	-	-	-	(24.4)	0.1	3.8	**-**	**(20.5)**	-	**(20.5)**
Dividends paid	-	-	-	(27.1)	-	-	**-**	**(27.1)**	(1.8)	**(28.9)**
Issue of own shares	-	2.9	-	-	-	-	**-**	**2.9**	-	**2.9**
Purchase of own shares	-	-	-	(1.0)	-	-	**-**	**(1.0)**	-	**(1.0)**
Share-based payment charge	-	-	-	2.0	-	-	**-**	**2.0**	-	**2.0**
At 31 December 2014	**0.6**	**76.6**	**2.7**	**21.8**	**(2.8)**	**0.2**	**184.8**	**283.9**	**1.5**	**285.4**

† Re-presented to reflect merger relief on acquisition of May Gurney Integrated Services plc.

Consolidated balance sheet

At 31 December 2014

	Notes	Unaudited 6 months to 31 December 2014 £m	Unaudited 6 months to 31 December 2013 £m	Year to 30 June 2014 £m
Non-current assets				
Intangible assets		**325.0**	323.5	323.8
Property, plant and equipment		**184.3**	192.0	192.4
Investment in joint ventures		**67.3**	32.5	40.9
Deferred tax assets		**5.1**	28.7	1.8
Trade and other receivables		**20.9**	27.4	23.5
Non-current assets		**602.6**	604.1	582.4
Current assets				
Inventories		**562.2**	583.4	470.4
Trade and other receivables		**541.6**	441.8	586.4
Income tax receivable		**4.9**	14.4	7.5
Assets held for sale		**10.2**	-	10.4
Cash and cash equivalents	8	**150.4**	68.9	112.4
Current assets		**1,269.3**	1,108.5	1,187.1
Total assets		**1,871.9**	1,712.6	1,769.5
Current liabilities				
Overdraft	8	**(11.9)**	-	(39.8)
Finance lease obligations		**(32.4)**	(21.2)	(27.6)
Other financial liabilities		**(0.3)**	(0.3)	(0.1)
Trade and other payables		**(1,026.2)**	(912.2)	(982.7)
Provisions		**(19.4)**	(27.1)	(27.9)
Current liabilities		**(1,090.2)**	(960.8)	(1,078.1)
Non-current liabilities				
Borrowings	8	**(294.5)**	(207.2)	(195.4)
Finance lease obligations		**(44.5)**	(60.1)	(59.4)
Other financial liabilities		**(2.1)**	(1.3)	(2.0)
Trade and other payables		**(3.4)**	(8.6)	(9.3)
Retirement benefit obligations	4	**(81.2)**	(62.6)	(59.8)
Provisions		**(70.6)**	(72.6)	(55.8)
Deferred tax liabilities		**-**	(21.6)	-
Non-current liabilities		**(496.3)**	(434.0)	(381.7)
Total liabilities		**(1,586.5)**	(1,394.8)	(1,459.8)
Net assets		**285.4**	317.8	309.7
Equity				
Share capital		**0.6**	0.5	0.6
Share premium		**76.6**	71.8†	73.7
Capital redemption reserve		**2.7**	2.7	2.7
Retained earnings		**21.8**	67.9	51.4
Cash flow hedge reserve		**(2.8)**	(12.0)	(2.9)
Translation reserve		**0.2**	(1.2)	(3.6)
Merger reserve		**184.8**	184.8†	184.8
Equity attributable to owners of the parent		**283.9**	314.5	306.7
Non-controlling interests		**1.5**	3.3	3.0
Total equity		**285.4**	317.8	309.7

† Re-presented to reflect merger relief on acquisition of May Gurney Integrated Services plc.

Consolidated cash flow statement

For the six months ended 31 December 2014

	Notes	**Unaudited 6 months to 31 December 2014 £m**	Unaudited 6 months to 31 December 2013 £m	Year to 30 June 2014 £m
Profit before tax		**26.7**	6.3	14.8
Exceptional items		**2.1**	22.0	42.2
Net finance cost		**10.1**	10.5	20.2
Share of post-tax trading results of joint ventures		**(0.6)**	(0.5)	(1.6)
Pension charge in excess of normal contributions to pension fund		**0.8**	1.9	1.3
Non cash adjustments				
Equity settled share-based payments charge		**2.0**	2.3	4.0
Amortisation and impairment of intangible assets		**7.1**	6.3	10.8
Depreciation charges		**13.7**	19.1	41.5
Profit on disposal of joint ventures		**(1.3)**	(2.1)	(6.1)
Loss/(profit) on disposal of property, plant and equipment		**0.2**	0.8	(4.5)
Operating cash flows before movements in working capital		**60.8**	66.6	122.6
Special contributions to pension fund		**(11.0)**	(4.0)	(8.0)
Cash flow from exceptional items		**(2.1)**	(25.4)	(35.6)
Increase in inventories		**(91.8)**	(103.9)	(7.0)
Decrease/(increase) in receivables		**51.2**	(33.2)	(156.3)
Increase in payables		**38.5**	39.5	96.3
Increase/(decrease) in provisions		**4.1**	(7.6)	(31.7)
Cash inflow from operating activities		**49.7**	(68.0)	(19.7)
Interest received		**1.0**	0.6	2.2
Corporation tax refunds		**-**	1.8	11.3
Dividends received from joint ventures		**0.2**	0.2	0.3
Net cash generated from operating activities		**50.9**	(65.4)	(5.9)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**1.1**	1.4	6.0
Proceeds from sale of joint venture		**3.2**	5.1	17.3
Purchases of property, plant and equipment		**(6.9)**	(18.1)	(48.2)
Purchase of intangible assets		**(8.3)**	(1.3)	(6.2)
Acquisition of subsidiaries		**(1.0)**	(65.6)	(65.6)
Net investment in joint ventures		**(27.5)**	(3.5)	(11.7)
Divestment/(investment) in assets held for resale		**0.2**	-	(4.0)
Cash acquired		**-**	(16.8)	(16.8)
Net cash used in investing activities before exceptionals		**(39.2)**	(98.8)	(129.2)
Exceptional proceeds on disposal of plant business		**-**	4.2	4.2
Net cash used in investing activities		**(39.2)**	(94.6)	(125.0)
Cash flows from financing activities				
Issue of shares		**1.8**	2.0	2.2
Purchase of own shares		**(1.0)**	(1.7)	(1.1)
Interest paid		**(7.8)**	(4.7)	(14.2)
Increase in borrowings		**120.1**	115.0	102.9
Inflow from finance leases on property, plant and equipment		**4.7**	15.0	40.3
Finance lease repayments		**(14.8)**	(11.7)	(29.6)
Repayment of borrowings		**(21.0)**	(20.0)	(20.0)
Dividends paid to equity holders of the parent		**(26.0)**	(17.3)	(29.1)
Dividends paid to minority interests		**(1.8)**	-	(0.2)
Net cash used in financing activities		**54.2**	76.6	51.2
Increase/(decrease) in cash, cash equivalents and overdraft		**65.9**	(83.4)	(79.7)
Opening cash, cash equivalents and overdraft		**72.6**	152.3	152.3
Closing cash, cash equivalents and overdraft	**8**	**138.5**	68.9	72.6

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 2014 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

This condensed consolidated interim financial information does not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. Statutory financial statements for the year ended 30 June 2014 were approved by the Board of Directors on 17 September 2014 and delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under section 498 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 Conduct 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 2014.

These interim condensed financial statements were approved by the directors on 24 February 2015.

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 2014.

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 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 2014. The principal risks and uncertainties continue to be those which are set out on pages 32 – 33 of the Group's annual report and accounts for the year ended 30 June 2014, under the following headings: Funding, The market, Tender pricing, Contract delivery, Reputation, People, Systems, Compliance, Safety and Change.

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 four divisions, Property, Residential, Construction and Services 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 10.

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, amortisation of intangible contract rights, 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.

Fair values
The Group's derivatives are measured at fair value. These are classified as level 2 financial instruments as the inputs are observable indirectly and are derived from prices.

Notes to the interim financial statements
Continued

Kier Group plc
Interim Management Report and Financial Statements for the six months ended 31 December 2014

2 Segmental reporting

Six months to 31 December 2014	Property[4] £m	Residential[4] £m	Construction £m	Services £m	Corporate £m	Group £m
Revenue[1]						
Group and share of joint ventures	49.1	90.2	874.0	569.3	-	1,582.6
Less share of joint ventures	(6.3)	-	(3.8)	-	-	(10.1)
Group revenue	**42.8**	**90.2**	**870.2**	**569.3**	**-**	**1,572.5**
Profit						
Group operating profit/(loss)	12.7	0.8	17.4	23.7	(12.3)	42.3
Share of post-tax results of joint ventures	-	-	0.6	-	-	0.6
Profit on disposal of joint ventures	1.3	-	-	-	-	1.3
Underlying operating profit/(loss)	**14.0**	**0.8**	**18.0**	**23.7**	**(12.3)**	**44.2**
Underlying net finance (costs)/income[2]	(1.3)	(5.2)	3.0	(2.2)	(2.6)	(8.3)
Underlying profit/(loss) before tax	**12.7**	**(4.4)**	**21.0**	**21.5**	**(14.9)**	**35.9**
Exceptional items	-	-	-	(0.6)	(1.5)	(2.1)
Amortisation of intangible contract rights	-	-	(0.2)	(5.1)	-	(5.3)
Non-underlying net finance costs	-	-	-	(1.8)	-	(1.8)
Profit/(loss) before tax	**12.7**	**(4.4)**	**20.8**	**14.0**	**(16.4)**	**26.7**
Balance sheet						
Total assets excluding cash	138.3	321.1	588.7	414.9	258.5	1,721.5
Liabilities excluding borrowings	3.9	(42.5)	(695.8)	(372.9)	(172.8)	(1,280.1)
Net operating assets/(liabilities)[3]	142.2	278.6	(107.1)	42.0	85.7	441.4
Cash, net of (borrowings)	(69.4)	(263.5)	288.8	15.6	(127.5)	(156.0)
Net assets/(liabilities)	72.8	15.1	181.7	57.6	(41.8)	285.4

Six months to 31 December 2013	Property[4] £m	Residential[4] £m	Construction £m	Services £m	Corporate £m	Group £m
Revenue[1]						
Group and share of joint ventures	54.5	72.4	742.2	562.9	-	1,432.0
Less share of joint ventures	(14.6)	-	(3.0)	-	-	(17.6)
Group revenue	**39.9**	**72.4**	**739.2**	**562.9**	**-**	**1,414.4**
Profit						
Group operating profit/(loss)	8.2	0.5	17.2	24.4	(8.4)	41.9
Share of post-tax results of joint ventures	0.3	-	0.1	-	-	0.4
Profit on disposal of joint ventures	2.1	-	-	-	-	2.1
Underlying operating profit/(loss)	**10.6**	**0.5**	**17.3**	**24.4**	**(8.4)**	**44.4**
Underlying net finance (costs)/income[2]	(1.0)	(5.5)	2.9	(2.6)	(1.4)	(7.6)
Underlying profit/(loss) before tax	**9.6**	**(5.0)**	**20.2**	**21.8**	**(9.8)**	**36.8**
Exceptional items	(0.1)	-	(4.8)	(6.3)	(10.8)	(22.0)
Amortisation of intangible contract rights	-	-	(0.3)	(5.3)	-	(5.6)
Non-underlying net finance costs	(0.3)	-	-	(2.6)	-	(2.9)
Profit/(loss) before tax	**9.2**	**(5.0)**	**15.1**	**7.6**	**(20.6)**	**6.3**
Balance sheet						
Total assets excluding cash	148.0	291.4	452.1	691.0	61.2	1,643.7
Liabilities excluding borrowings	(5.5)	(35.9)	(604.2)	(422.7)	(119.3)	(1,187.6)
Net operating assets/(liabilities)[3]	**142.5**	**255.5**	**(152.1)**	**268.3**	**(58.1)**	**456.1**
Cash, net of (borrowings)	(86.9)	(233.9)	271.6	8.7	(97.8)	(138.3)
Net assets/(liabilities)	**55.6**	**21.6**	**119.5**	**277.0**	**(155.9)**	**317.8**

Notes to the interim financial statements
Continued

2 Segmental reporting continued

Year to 30 June 2014	Property[4] £m	Residential[4] £m	Construction £m	Services £m	Corporate £m	Group £m
Revenue[1]						
Group and share of joint ventures	102.2	181.9	1,597.0	1,104.1	-	2,985.2
Less share of joint ventures	(24.4)	-	(6.5)	-	-	(30.9)
Group revenue	**77.8**	**181.9**	**1,590.5**	**1,104.1**	**-**	**2,954.3**
Profit						
Group operating profit/(loss)	9.4	5.0	32.5	53.3	(19.9)	80.3
Share of post-tax results of joint ventures	0.5	-	1.1	-	-	1.6
Profit on disposal of joint ventures	6.1	-	-	-	-	6.1
Underlying operating profit/(loss)	**16.0**	**5.0**	**33.6**	**53.3**	**(19.9)**	**88.0**
Underlying net finance (costs)/income[2]	(2.3)	(11.1)	5.6	(4.5)	(2.6)	(14.9)
Underlying profit/(loss) before tax	**13.7**	**(6.1)**	**39.2**	**48.8**	**(22.5)**	**73.1**
Exceptional items	(2.3)	(0.1)	(7.8)	(10.4)	(21.6)	(42.2)
Amortisation of intangible contract rights	(0.1)	-	(0.4)	(10.3)	-	(10.8)
Non-underlying net finance costs	(0.3)	-	-	(5.0)	-	(5.3)
Profit/(loss) before tax	11.0	(6.2)	31.0	23.1	(44.1)	14.8
Balance sheet						
Total assets excluding cash	144.3	302.4	540.0	432.0	238.4	1,657.1
Liabilities excluding borrowings	(17.3)	(44.0)	(638.9)	(382.0)	(142.4)	(1,224.6)
Net operating assets/(liabilities)[3]	**127.0**	**258.4**	**(98.9)**	**50.0**	**96.0**	**432.5**
Cash, net of (borrowings)	(65.7)	(238.5)	273.9	13.2	(105.7)	(122.8)
Net assets/(liabilities)	**61.3**	**19.9**	**175.0**	**63.2**	**(9.7)**	**309.7**

[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 4.0%.
[3] Net operating (liabilities)/assets represent assets excluding cash, bank overdrafts, borrowings and interest-bearing inter-company loans.
[4] Prior year comparatives have been represented to reflect the split of the Property division into Property (PFI and Structured Finance) and Residential.

3 Non-underlying items

	Unaudited 6 months to 31 December 2014 £m*	Unaudited 6 months to 31 December 2013 £m*	Year to 30 June 2014 £m*
Restructuring and business disposal costs	**(1.1)**	-	-
Costs associated with cessation of the Kier Group final salary pension scheme	**(1.0)**	-	-
Acquisition costs	**-**	(7.5)	(8.1)
Business integration and transformation costs	**-**	(14.5)	-
Restructuring and transformation costs following the acquisition of May Gurney	**-**	-	(29.6)
Construction Workers Compensation Scheme and related costs	**-**	-	(4.5)
Exceptional items before tax	**(2.1)**	**(22.0)**	**(42.2)**
Taxation on exceptional items	**0.4**	3.3	6.4
Exceptional items after tax	**(1.7)**	**(18.7)**	**(35.8)**
Amortisation of intangible contract rights	**(5.3)**	(5.6)	(10.8)
Taxation on amortisation of intangible contract rights	**1.1**	1.3	2.2
Exceptional items and amortisation of intangible contract rights after tax	**(5.9)**	**(23.0)**	**(44.4)**
Acquisition discount unwind	**(1.8)**	(2.9)	(5.3)
Taxation on acquisition discount unwind	**0.4**	0.6	1.2
Exceptional items, amortisation and acquisition discount unwind after tax	**(7.3)**	**(25.3)**	**(48.5)**

* 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.

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 2014			Unaudited 6 months to 31 December 2013				Year to 30 June 2014			
	Kier Group Pension Scheme £m	**Other Schemes £m**	**Total £m**	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Other Schemes £m	Total £m	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Other Schemes £m	Total £m
Opening (deficit)/surplus	**(63.1)**	**3.3**	**(59.8)**	(48.7)	(1.0)	-	(49.7)	(48.7)	(1.0)	-	(49.7)
Acquired deficit	**-**	**-**	**-**	-	-	(0.6)	(0.6)	-	-	3.7	3.7
Charge to income statement	**(6.5)**	**-**	**(6.5)**	(6.6)	(2.2)	-	(8.8)	(12.1)	(2.0)	0.2	(13.9)
Employer contributions	**15.7**	**-**	**15.7**	8.3	1.3	-	9.6	16.4	2.1	0.3	18.8
Actuarial (losses)/gains	**(26.8)**	**(3.8)**	**(30.6)**	(9.6)	(1.6)	(1.9)	(13.1)	(18.7)	0.9	(0.9)	(18.7)
Closing (deficit)/surplus	**(80.7)**	**(0.5)**	**(81.2)**	**(56.6)**	**(3.5)**	**(2.5)**	**(62.6)**	**(63.1)**	**-**	**3.3**	**(59.8)**
Comprising:											
Total market value of assets	**912.5**	**80.9**	**993.4**	815.5	193.7	70.0	1,079.2	837.1	-	74.6	911.7
Present value of liabilities	**(993.2)**	**(81.4)**	**(1,074.6)**	(872.1)	(197.2)	(72.5)	(1,141.8)	(900.2)	-	(71.3)	(971.5)
(Deficit)/surplus	**(80.7)**	**(0.5)**	**(81.2)**	**(56.6)**	**(3.5)**	**(2.5)**	**(62.6)**	**(63.1)**	**-**	**3.3**	**(59.8)**
Related deferred tax asset/(liability)	**16.1**	**0.1**	**16.2**	11.9	0.7	0.5	13.1	12.6	-	(0.7)	11.9
Net pension (liability)/asset	**(64.6)**	**(0.4)**	**(65.0)**	**(44.7)**	**(2.8)**	**(2.0)**	**(49.5)**	**(50.5)**	**-**	**2.6**	**(47.9)**

5 Taxation

The taxation charge for the six months ended 31 December 2014 has been calculated at 20.5% (June 2014: 19%, December 2013: 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.

	Unaudited 6 months to 31 December 2014			Unaudited 6 months to 31 December 2013			Year to 30 June 2014		
	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	**35.9**	**(9.2)**	**26.7**	36.8	(30.5)	6.3	73.1	(58.3)	14.8
Adjust: tax on joint ventures included above	**-**	**-**	**-**	-	-	-	0.1	-	0.1
Adjusted profit before tax	**35.9**	**(9.2)**	**26.7**	36.8	(30.5)	6.3	73.2	(58.3)	14.9
Current tax	**(3.6)**	**1.0**	**(2.6)**	(4.3)	4.3	-	(8.0)	8.2	0.2
Deferred tax (including effect of change in tax rate)	**(3.8)**	**0.9**	**(2.9)**	(2.3)	0.9	(1.4)	(6.0)	1.6	(4.4)
Total income tax expense in the income statement	**(7.4)**	**1.9**	**(5.5)**	**(6.6)**	**5.2**	**(1.4)**	**(14.0)**	**9.8**	**(4.2)**
Tax on joint ventures	**-**	**-**	**-**	-	-	-	0.1	-	0.1
Effective tax charge	**(7.4)**	**1.9**	**(5.5)**	**(6.6)**	**5.2**	**(1.4)**	(13.9)	9.8	(4.1)
Rate	**21%**		**21%**	**18%**		**22%**	**19%**		**28%**

* 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

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 2014 £m**	Unaudited 6 months to 31 December 2013 £m	Year to 30 June 2014 £m
Final dividend for the year ended 30 June 2014 of 49.5 pence (2013: 46.5 pence)	**27.1**	25.0	25.0
Interim dividend for the year ended 30 June 2014 of 22.5 pence	**-**	-	12.3
	27.1	25.0	37.3

The interim dividend for the year ending 30 June 2015 of 24.0 pence per share (2014: 22.5 pence) has not yet been paid and so has not been included as a liability in these financial statements. The dividend totalling approximately £13.4m will be paid on 15 May 2015 to shareholders on the register at the close of business on 6 March 2015. A scrip dividend alternative will be offered.

7 Earnings per share

	Unaudited 6 months to 31 December 2014		Unaudited 6 months to 31 December 2013		Year to 30 June 2014	
	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	**20.9**	**20.9**	4.1	4.1	10.0	10.0
Exclude exceptional items	**2.1**	**2.1**	22.0	22.0	42.2	42.2
Less tax thereon	**(0.4)**	**(0.4)**	(3.3)	(3.3)	(6.4)	(6.4)
Earnings excluding exceptional items	**22.6**	**22.6**	22.8	22.8	45.8	45.8
Exclude amortisation of intangible assets relating to contract rights	**5.3**	**5.3**	5.6	5.6	10.8	10.8
Less tax thereon	**(1.1)**	**(1.1)**	(1.3)	(1.3)	(2.2)	(2.2)
Earnings excluding exceptional items and amortisation of intangible contract rights	**26.8**	**26.8**	27.1	27.1	54.4	54.4
Exclude acquisition discount unwind	**1.8**	**1.8**	2.9	2.9	5.3	5.3
Less tax thereon	**(0.4)**	**(0.4)**	(0.6)	(0.6)	(1.2)	(1.2)
Adjusted earnings*	**28.2**	**28.2**	29.4	29.4	58.5	58.5
	million	**million**	million	million	million	million
Weighted average number of shares	**55.2**	**55.2**	53.8	53.8	54.3	54.3
Weighted average impact of LTIP and Sharesave scheme	**-**	**0.4**	-	0.4	-	0.4
Weighted average number of shares used for earnings per share	**55.2**	**55.6**	53.8	54.2	54.3	54.7
	pence	**pence**	pence	pence	pence	pence
Earnings per share	**37.9**	**37.6**	7.6	7.6	18.4	18.3
Adjusted earnings per share*	**51.1**	**50.7**	54.6	54.2	107.7	106.9

* 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.

Notes to the interim financial statements
Continued

8 Cash, cash equivalents, overdraft and borrowings

	Unaudited 6 months to 31 December 2014 £m	Unaudited 6 months to 31 December 2013 £m	Year to 30 June 2014 £m
Net debt consists of:			
Cash and cash equivalents	**150.4**	68.9	112.4
Overdrafts	**(11.9)**	-	(39.8)
Net cash, cash equivalents and overdraft	**138.5**	68.9	72.6
Borrowings due after 1 year	**(294.5)**	(207.2)	(195.4)
Net debt	**(156.0)**	(138.3)	(122.8)

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 2014 annual financial statements. 154,711 shares have vested under the LTIP during the six months to 31 December 2014.

On 22 October 2014 grants were made under the LTIP as follows:

Shares granted	802,207
Share price at grant	15.19
Exercise price	nil
Option life	3 years
Expected volatility	24.60%
Dividend yield	4.74%
Risk-free interest rate	1.02%
Value per option:	
TSR element (based upon a stochastic model)	756.8
EPS element (based upon the Black-Scholes model)	1,317.7

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 pension schemes

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

- in July 2014 £0.9m which was settled in cash; and
- in September 2014 £1.5m which was settled in cash.

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 2014.

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 24 February on behalf of the Board

H J Mursell	**B E J Dew**
Chief Executive	Group Finance Director

Independent review report to Kier Group plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the interim financial report of Kier Group plc for the six months ended 31 December 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.
This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by Kier Group plc, comprise:

- the consolidated balance sheet as at 31 December 2014;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the consolidated cash flow statement for the period then ended;
- the explanatory notes to the condensed consolidated interim financial statements.

As disclosed in note 1, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.
The condensed consolidated interim financial statements included in the interim financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated financial statements involves

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 United Kingdom. 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.
We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the directors

The interim financial report, including the condensed consolidated interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.
Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
24 February
London