News Release

KIER GROUP

27 February 2008

KIER GROUP PLC

INTERIM RESULTS FOR THE SIX MONTHS TO 31 DECEMBER 2007

- Pre-tax profits up 23.2% to £44.6m (2006: £36.2m)
- EPS* up 19.1% to 90.3p (2006: 75.8p)
- Dividend increased by 87.5% to 18.0p (2006: 9.6p)
- Net cash of £135.9m at 31 December 2007 (2006: £114.4m)
- Strong Construction and Support Services order books
- Homes order book together with completions to 1 February secure over 75% of the full year target

  ** adjusted for amortisation of intangibles*

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

"Our Construction and Support Services businesses have never been busier, our order books are strong and, importantly, our enquiry levels remain high.

"We have experienced teams in place in all of our businesses, a strong balance sheet and good cash resources and, in the absence of any significant market setbacks, we are firmly on track for growth this year."

Chief executive's review

Overview

I am very pleased to report that, for the six months to 31 December 2007, Kier Group plc has delivered another strong set of interim results. Despite difficult market conditions facing our Homes business, the Group has achieved record levels of revenue and pre-tax profit for the period.

Our Construction and Support Services businesses, in particular, have been very busy, each of them achieving new records of revenue and profits for the six months with good market conditions providing plenty of opportunities and strong, high-quality order books. Our Homes division sold 827 homes in the period marginally more than last year's 819 homes with a relatively strong market in Scotland. In Property the year commenced well with a number of key development sales secured in the early part of the financial year.

Our Infrastructure Investment business has seen recent success through the sale of our 50% Private Finance Initiative (PFI) investment in the Hairmyres District General Hospital project in Scotland, Kier's first ever PFI contract. The sale completed in February 2008 and contributes a profit of £16.2m in the second half of this financial year, including profit previously deferred following a refinancing in August 2004. This represents a return of around five times our original investment. The value attributed to the equity sold implies a net present value calculated using an average discount rate of less than five per cent.

The markets in which we are currently operating are less predictable than we have seen for some time, particularly for our Homes and Property businesses where the impact of the 'credit crunch' has become more apparent. Our housing order books are around 20% lower than they were a year ago, reflecting a dip in visitor levels during November and December. We will be selling from an average of 58 sites in the second half of the year compared with 53 in the first half but expect overall completions to be marginally lower than last year. In Property there are a number of opportunities in the pipeline for the second half of the year. We are confident in the carrying values of our housing and our property developments.

We are seeing little evidence of the credit shortage affecting our Construction and Support Services businesses. Our Construction division continues to operate in strong markets and is carrying order books at 31 December 2007 10% ahead of last year at £1,616m, benefiting from both private and public sector spend particularly in the education, prison and affordable housing sectors. A greater proportion of our work is now generated through framework agreements, two-stage bids and negotiation which create better quality, lower risk order books. Support Services has seen strong growth in its order books at 31 December 2007 to £1,674m, 8.6% ahead of last year. This is before including a further £400m in respect of our new contract in Stoke which commenced operation on 4 February 2008. The market for our PFI investments is, presently, unchanged with continuing demand for secondary PFI investments.

Financial results

Revenue for the six months to 31 December 2007 was at a record £1,205.5m, 18.1% ahead of last year's £1,020.5m; operating profit after the amortisation of intangible assets and joint venture interest and tax was 16.5% ahead at £42.3m (2006: £36.3m) and pre-tax profit was 23.2% ahead at £44.6m (2006: £36.2m), benefiting from strong growth in both the Construction and Support Services businesses.

Earnings per share, adjusted for the amortisation of intangible assets, increased by 19.1% to 90.3p (2006: 75.8p).

The trading result was supported by a strong cash performance with £26.7m generated from operating activities. Net funds at 31 December 2007 were £135.9m (2006: £114.4m) and strong balances were maintained in the Construction division which were £56.5m ahead of last year.

Following shareholder approval to rebase the total dividend for 2007 by 92.3% to 50p, the Board has declared an interim dividend for the year to 30 June 2008 of 18.0p (2006: 9.6p); an increase of 87.5%. The dividend is 4.9 times covered by earnings per share and will be paid to shareholders on 2 May 2008 with the usual scrip alternative.

Construction

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

Overall revenue increased by 20.9% to £816.1m (2006: £675.2m) with good growth in both Kier Regional and Kier Construction. Operating profit increased by 50.5% to £14.3m (2006: £9.5m) and the operating margin increased to 1.8% from 1.4% last year making positive progress towards our 2% target.

Cash generation in this division is fundamental to gauging the quality of the work we are carrying out and our cash balances at 31 December 2007 were £17.7m ahead of 30 June 2007 (after tax and dividends) with average balances £52.8m ahead of those for the full year to 30 June 2007. The order book at 31 December 2007 was £1,616m (2006: £1,470m) supported by a healthy pipeline of orders which are close to being awarded.

Kier Regional continues to make advancements in its key performance indicators of revenue, profit margins and cash. Revenue grew by over 20% compared with the same period last year, profit margins continue to increase and cash ended the period at a record £350m (2006: £298m).

There has been a strong level of contract awards in the period with around 50% arising from publicly funded sources and 50% privately funded (2006: 49% public; 51% private). Around 80% of our awards were gained through two-stage tenders or negotiation, many of them through framework contracts, with only 20% of awards competitively bid (2006: 65% two-stage and negotiation; 35% competitive). Education has been a key driver of our public sector work representing around 23% of awards through a combination of conventional procurement and framework agreements. We were delighted to have been awarded one of the first academy projects under the 'Contractors' Framework for Academies and Other Educational Facilities' and a major contract for Mid Kent College. Education is set to remain a key sector for us as we have recently been appointed preferred bidder, as part of the Land Securities Trillium consortium, on the Building Schools for the Future programme in Kent. This will provide us, initially, with £100m of schools work with a potential for around £150m more. Prisons have also provided a significant amount of work, representing 10% of awards, under our framework agreement with the Ministry of Justice. In health we were awarded £116m of contracts under the ProCure 21 framework during 2007.

Our social housing business, Kier Partnership Homes, was also successful in winning a number of contracts in the period and we are well placed to take advantage of the growing affordable housing sector through our status as 'a partner' with the Housing Corporation which qualifies us to apply directly for housing grants. The Government continues to be committed to the affordable and regeneration sector with a target to build 70,000 new social houses per annum compared with the current total of 25,000 each year. Through Kier Partnership Homes and Kier Property we are well positioned to respond to this increased target.

In the private sector our awards were driven by commercial property, including a number of projects for Kier Property and SEGRO (Slough Estates); food retail, particularly projects for Tesco and Sainsbury; and the hotel and leisure sector.

Kier Construction has had a busy half-year on a number of projects including the LNG Terminal in Milford Haven for South Hook LNG which is now nearing completion. Our track record in power stations continues to grow with good progress being made at Immingham and Langage and further opportunities close to award including a gas fired power station at Staythorpe and a waste to energy PFI project on which we are preferred bidder with Vosper Thornycroft.

At our private open cast coal mine, Greenburn in East Ayrshire, we have now extracted 2.3m tonnes of coal since we began production in 2004 and have been taking advantage of the very high prices for coal over recent months.

Overseas the building contracts for residential apartments and retail centres in Romania are progressing well and further opportunities look promising. We marked our return to contract phosphate mining in the Middle East with the signing of a £128m, eight-year contract in the north of Saudi Arabia, of which our share is 25%. Kier, together with our partners Al-Qahtani of Saudi Arabia and Comedat of Jordan, will establish and operate the open cast mine opening up, potentially, the world's largest phosphate reserves. We have also recently been awarded £105m of infrastructure contracts in Dubai.

Support Services
Support Services comprises Kier Building Maintenance, Kier Managed Services, Kier Building Services Engineers and Kier Plant. Kier Building Maintenance provides reactive and planned maintenance principally to local authority clients, housing associations and Arms Length Management Organisations as well as Street Services including refuse collection, street cleaning and grounds maintenance principally to local authorities. Kier Managed Services provides facilities management services to public and private sector clients. Kier Building Services Engineers comprises our specialist mechanical and electrical design, installation and maintenance business; and Kier Plant hires plant to Kier Group companies and external clients.

Revenue in this segment increased by 25.6% to £179.3m (2006: £142.7m); operating profit, before deducting the amortisation of intangibles of £1.0m (2006: £1.0m), increased by 41.2% to £7.2m (2006: £5.1m) and the operating margin reached our target of 4.0% earlier than expected. Cash generation within this business remains strong with cash balances at 31 December 2007 of £18.9m (2006: £17.8m). Order books at 31 December 2007 of £1,674m (2006: £1,542m) reflect the high level of awards achieved last year.

Kier Building Maintenance is the largest division within Support Services with revenue for the period at £134.3m (2006: £99.0m) representing a 35.7% increase on last year following a number of significant contract awards in the second half of the last financial year. New contracts awarded last year included Hull (£17m per annum), Harlow (£25m per annum), Harrow (£22m per annum) and Liverpool (£21m per annum). All have started well and are performing in line with our expectations contributing to good visibility of earnings in this division over the next five to ten years.

In February 2008 we were delighted to start work on a contract in partnership with Stoke-on-Trent City Council to maintain its 20,000 housing stock and carry out works through the Decent Homes programme. This brings the total number of public sector homes we now look after to 207,000 representing around 10% of the total public sector housing stock held by local authorities. The new contract will provide us with annual revenue of £40m for ten years, extendable for a further five years. It also provides a great opportunity to attract additional work either through the contract or through third party work using the resources available in the partnership, similar to that experienced in both our Sheffield and Harlow contracts. A growing pipeline of new opportunities has emerged and we are short-listed on a £60m per annum ten-year contract at North Tyneside and a £10m per annum five-year contract at Camden. We have a strong track record of delivery on high value Building Maintenance contracts which places us well in this sector.

Homes
Kier Residential, our housebuilding division, comprises five companies; Allison Homes operating throughout Lincolnshire and north Cambridgeshire; Bellwinch Homes with sites in the south and

south-east; Kier Homes, operating across the central belt of Scotland; Kier Homes Northern (formerly Hugh Bourn Homes) operating in north Lincolnshire; and Twigden Homes with activities in East Anglia and Bedfordshire.

Kier Residential sold 827 homes in the six months to 31 December 2007, marginally more than 2006's 819 homes, of which 15% were affordable housing units, compared with 21% last year. Revenue in the six months to 31 December 2007 of £143.2m (2006: £151.8m) excluded land sales compared with the £8.3m of land sales included in the prior period. Average sales prices fell marginally from £175,200 to £173,200 reflecting a higher proportion of lower value Kier Homes Northern sales in the period.

Operating profit from housing sales was in line with last year at £20.1m (2006: £20.2m) with no profit arising from land sales (2006: £0.2m) giving an operating margin on housing sales broadly consistent with last year at 14.0% (2006: 14.1%). The land bank at 31 December 2007 contained 6,294 plots with planning consent (2006: 7,004) including two large new sites, acquired by our Scottish based business; specifically 326 units at Winston Barracks, Lanark and 195 units at Hawkehead, Paisley. In addition to the land with planning consent the land bank also contains a further 12,400 plots of strategic land mostly held under option.

There is no doubt that the markets in which we operate have become much tougher in recent months. Mortgage availability is reduced and we saw a significant reduction in visitor levels to our sites in the run-up to Christmas and over the Christmas period. January saw a return of visitors to our sites with a slight increase in the number of reservations compared with the earlier period. Our order books at 1 February 2008 are 20% lower than they were at this time last year although we are planning to open a number of new sites in the second half of the financial year which will increase the average by five sites over the first half. Completions to 1 February 2008 combined with our order book for the current year secure over 75% of our projected unit sales for the year. We have reviewed our incentive packages and, whilst we are not prepared to accept material margin erosion we are realistic about market conditions and cash lock-up. In this regard we are reducing our exposure to part-exchange properties by lowering our limit on the amount of part-exchange property we are prepared to hold. Despite the slowdown in the market and the marginal price reductions our carrying values of land and work in progress are robust.

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

Revenue for the six months to 31 December 2007 of £58.3m (2006: £43.5m) was 34.0% ahead of last year with operating profit 18.5% lower at £7.5m (2006: £9.2m), before joint venture interest and tax.

Within our wholly owned business we completed on the sale of a £40m headquarters building in Milton Keynes, pre-let to Electronic Data Systems, on which Kier Regional is the contractor and we are recognising development profit in accordance with the stage of completion of the works. Good progress is being made at the new 70,000sq ft UK Supreme Court development for the Ministry of Justice in London's Parliament Square where Wallis, our specialist refurbishment contracting business, is carrying out the work, and we are on programme for completion in the spring of 2009. In our joint venture with the Bank of Scotland we sold a number of developments including a 22-unit 'Trade City' Industrial Park at Hemel Hempstead and a number of industrial units at our Brooklands development in Weybridge.

At Western International Market, near Heathrow, construction of a new market for the fruit and vegetable traders has now been completed and the site currently occupied by the traders will soon be released for redevelopment into distribution units; marketing will commence on that development shortly.

The commercial property market is tougher than we have seen for some time with exit yields shifting upwards, particularly on secondary sites. However, the carrying values of the developments in our portfolio continue to be substantiated and will provide us with a good revenue stream. This market may also provide us with potential acquisition opportunities at sensible prices.

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

Kier Regional has made good construction progress on two schools for Oldham Metropolitan Council, which were handed over in February 2008, and a number of schools for Norfolk County Council. The Garrett Anderson Health Centre in Ipswich, also being built by Kier Regional, is close to completion. Kier Managed Services will provide the facilities management services to all these projects when they are completed. We are also close to completion on the North Kent Police Headquarters for Kent County Council.

In early February 2008 we were pleased to announce the sale of our 50% investment in Hairmyres District General Hospital in East Kilbride, Scotland. Hairmyres was our first PFI project and included Innisfree as our equity partner to whom we have now sold our share of the investment. The hospital was completed by Kier Build in 2001 and, as it has successfully operated for nearly seven years, the time was right to exit our investment. The sale gave us proceeds of £13.8m which, when combined with a refinancing gain deferred from August 2004, gives us a profit of £16.2m. The profit will be recognised in the second half of the financial year and represents a return of around five times our original investment. The value attributed to the equity sold implies a net present value calculated using an average discount rate of less than five per cent.

Following the equity sale, our portfolio includes 12 projects in which we have invested, or have commitments to invest, a total of £18.5m. The directors' valuation of the committed investment is approximately £39m based on discounting the cash flows at 7%.

Health & Safety
In employing over 23,000 people (including subcontractors) across our UK and international operations every day, we can never allow our focus on their health and safety to falter. In an effort to raise, yet again, the very high standards we demand of our project teams, we are setting new targets relating to site presentation and branding and the way in which we communicate with our workforce to ensure risks are understood and managed. Our Accident Incidence Rate of 693 per 100,000 staff and subcontractors compares favourably with a Health & Safety Executive (HSE) target rate of 946 per 100,000. The HSE target for 2008 is set at 865.

Prospects
We are reporting at a time of uncertainty in both the world and the UK economy with the 'credit crunch' having a particular effect on our Homes and Property businesses. Our Construction and Support Services businesses, on the other hand, have never been busier, our order books are strong and, importantly, our enquiry levels remain high.

We have experienced teams in place in all of our businesses, a strong balance sheet and good cash resources and, in the absence of any significant market setbacks, we are firmly on track for growth this year.

Consolidated income statement
for the six months ended 31 December 2007

	Notes	**Unaudited 6 months to 31 December 2007 £m**	Unaudited 6 months to 31 December 2006 £m	Year to 30 June 2007 £m
Revenue				
Group and share of joint ventures	5	**1,205.5**	1,020.5	2,127.9
Less share of joint ventures		**(30.9)**	(40.7)	(62.5)
Group revenue		**1,174.6**	979.8	2,065.4
Cost of sales		**(1,071.4)**	(889.4)	(1,874.6)
Gross profit		**103.2**	90.4	190.8
Administrative expenses		**(61.3)**	(55.9)	(115.9)
Share of post tax profits from joint ventures		**0.4**	1.8	3.0
Profit from operations	5	**42.3**	36.3	77.9
Finance income		**5.4**	3.3	6.9
Finance cost		**(3.1)**	(3.4)	(7.2)
Profit before tax	5	**44.6**	36.2	77.6
Taxation	6	**(12.3)**	(9.9)	(21.3)
Profit for the period		**32.3**	26.3	56.3
Attributable to:				
Equity holders of the parent		**31.8**	26.3	55.5
Minority interests		**0.5**	-	0.8
		32.3	26.3	56.3
Earnings per share				
- basic	8	**88.3p**	73.9p	155.0p
- diluted		**87.8p**	72.9p	152.9p
Adjusted earnings per share (excluding the amortisation of intangible assets)				
- basic	8	**90.3p**	75.8p	158.9p
- diluted		**89.8p**	74.8p	156.7p

Consolidated statement of recognised income and expense
for the six months ended 31 December 2007

	Unaudited 6 months to 31 December 2007 £m	Unaudited 6 months to 31 December 2006 £m	Year to 30 June 2007 £m
Foreign exchange translation differences	**-**	-	(0.4)
Fair value movements in cash flow hedging instruments	**(13.2)**	-	13.1
Actuarial gains and losses on defined benefit pension schemes	**(17.0)**	10.2	22.5
Deferred tax on items recognised directly in equity	**8.5**	(3.1)	(12.1)
Income and expense recognised directly in equity	**(21.7)**	7.1	23.1
Profit for the period	**32.3**	26.3	56.3
Total recognised income and expense for the period	**10.6**	33.4	79.4
Attributable to:			
Equity holders of the parent	**10.1**	33.4	78.6
Minority interests	**0.5**	-	0.8
	10.6	33.4	79.4

Consolidated balance sheet
at 31 December 2007

	Notes	**Unaudited 31 December 2007 £m**	Unaudited 31 December 2006 £m	30 June 2007 £m
Non-current assets				
Intangible assets		**12.6**	13.8	13.6
Property, plant and equipment	9	**84.6**	80.3	83.4
Investment in joint ventures		**37.3**	28.0	40.7
Retirement benefit surplus	10	**6.3**	6.8	6.8
Deferred tax assets		**11.5**	14.4	8.7
Other financial assets		**-**	0.2	0.2
Trade and other receivables		**14.8**	17.4	10.3
Non-current assets		**167.1**	160.9	163.7
Current assets				
Inventories		**482.9**	443.3	460.1
Other financial assets		**0.6**	0.3	0.3
Trade and other receivables		**300.3**	258.7	319.4
Cash and cash equivalents		**166.1**	144.6	178.6
Current assets		**949.9**	846.9	958.4
Total assets		**1,117.0**	1,007.8	1,122.1
Current liabilities				
Trade and other payables		**(779.0)**	(700.1)	(791.8)
Tax liabilities		**(9.4)**	(3.3)	(3.4)
Provisions		**(1.2)**	(1.2)	(2.4)
Joint venture investment classified as held for sale	14	**(5.1)**	-	-
Current liabilities		**(794.7)**	(704.6)	(797.6)
Non-current liabilities				
Long-term borrowings		**(30.2)**	(30.2)	(30.2)
Trade and other payables		**(36.4)**	(51.3)	(50.0)
Retirement benefit obligations	10	**(40.8)**	(48.1)	(30.6)
Provisions		**(24.3)**	(21.4)	(20.2)
Deferred tax liabilities		**(10.7)**	(12.7)	(10.5)
Non-current liabilities		**(142.4)**	(163.7)	(141.5)
Total liabilities		**(937.1)**	(868.3)	(939.1)
Net assets		**179.9**	139.5	183.0
Equity				
Share capital		**0.4**	0.4	0.4
Share premium		**32.5**	22.7	27.0
Capital redemption reserve		**2.7**	2.7	2.7
Retained earnings		**146.9**	116.3	145.7
Cash flow hedge reserve		**(2.5)**	(2.4)	7.0
Translation reserve		**(0.6)**	(0.2)	(0.6)
Equity attributable to equity holders of the parent		**179.4**	139.5	182.2
Minority interests		**0.5**	-	0.8
Total equity	11	**179.9**	139.5	183.0

Consolidated statement of cash flows

for the six months ended 31 December 2007

		Unaudited 6 months to 31 December 2007 £m	Unaudited 6 months to 31 December 2006 £m	Year to 30 June 2007 £m
Cash flows from operating activities				
Profit before tax		**44.6**	36.2	77.6
Adjustments	Share of post tax profits from joint ventures	**(0.4)**	(1.8)	(3.0)
	Normal contributions to pension fund in excess of pension charge	**(3.2)**	(0.7)	(2.9)
	Share-based payments charge	**1.6**	1.6	3.9
	Amortisation of intangible assets	**1.0**	1.0	2.0
	Depreciation charges	**8.5**	7.3	15.0
	Profit on disposal of property, plant & equipment	**(0.6)**	(0.3)	(0.7)
	Net finance (income)/cost	**(2.3)**	0.1	0.3
Operating cash flows before movements in working capital		**49.2**	43.4	92.2
Special contributions to pension fund		**(3.0)**	(8.0)	(11.0)
Increase in inventories		**(22.8)**	(2.8)	(20.1)
Decrease/(increase) in receivables		**15.5**	(1.4)	(54.4)
(Decrease)/increase in payables		**(14.8)**	10.1	104.9
Increase in provisions		**2.6**	3.4	3.2
Cash inflow from operating activities		**26.7**	44.7	114.8
Dividends received from joint ventures		**0.5**	0.5	0.6
Interest received		**4.9**	3.1	6.8
Income taxes paid		**(4.1)**	(7.4)	(16.9)
Net cash generated from operating activities		**28.0**	40.9	105.3
Cash flows from investing activities				
Proceeds from sale of property, plant & equipment		**0.8**	0.9	1.5
Purchases of property, plant & equipment		**(10.7)**	(7.7)	(19.7)
Acquisition of subsidiaries, including net borrowings acquired		**(12.9)**	(20.0)	(28.0)
Investment in joint ventures		**(1.2)**	(5.4)	(7.7)
Net cash used in investing activities		**(24.0)**	(32.2)	(53.9)
Cash flows from financing activities				
Proceeds from the issue of share capital		**-**	-	3.1
Purchase of own shares		**(5.5)**	(0.4)	(8.7)
Interest paid		**(1.2)**	(1.3)	(2.6)
Dividends paid to equity shareholders		**(9.0)**	(3.7)	(5.9)
Distributions to minority interests		**(0.8)**	-	-
Net cash used in financing activities		**(16.5)**	(5.4)	(14.1)
(Decrease)/increase in cash and cash equivalents		**(12.5)**	3.3	37.3
Opening cash and cash equivalents		**178.6**	141.3	141.3
Closing cash and cash equivalents		**166.1**	144.6	178.6
Reconciliation of net cash flow to movement in net funds				
(Decrease)/increase in cash and cash equivalents		**(12.5)**	3.3	37.3
Increase in long term borrowings		**-**	(0.1)	(0.1)
Opening net funds		**148.4**	111.2	111.2
Closing net funds		**135.9**	114.4	148.4
Net funds consist of:				
Cash and cash equivalents		**166.1**	144.6	178.6
Long-term borrowings		**(30.2)**	(30.2)	(30.2)
Net funds		**135.9**	114.4	148.4

Notes to the interim financial statements

1. 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 2007 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

The interim financial information in this statement does not constitute statutory accounts, as defined in section 240 of the Companies Act 1985. The statutory accounts for the year to 30 June 2007 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under section 237 of the Companies Act 1985.

2. Statement of compliance

These interim 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 2007.

These interim financial statements were approved by the directors on 26 February 2008.

3. 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 year ended, 30 June 2007.

The following amendments to standards or interpretations are mandatory for the first time for the financial year ending 30 June 2008:

IFRIC 10 'Interim financial reporting and impairment'. This interpretation has not had any impact on the timing or recognition of impairment losses as the Group already accounted for such amounts using principles consistent with IFRIC 10.

IFRS 7 'Financial Instruments: Disclosures', and the related amendments to IAS 1 'Presentation of Financial Statements' on capital disclosures. As this interim management report contains only condensed financial statements, full disclosures as required by IFRS 7 and IAS 1 will be given in the annual financial statements.

IFRIC 11 'IFRS 2 – Group and treasury share transactions'. The directors do not expect this interpretation to impact the Group.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year ending 30 June 2008:

IAS 23	'Amendments to borrowing costs'
IAS 27R	'Consolidated and separate financial statements'
IFRS 2	'Amendments to share based payments: vesting conditions and cancellations'
IFRS 3R	'Business combinations'
IFRS 8	'Operating segments'
IFRIC 12	'Service concession arrangements'
IFRIC 14	'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction.'

The directors have considered the impact of these new standards and interpretations in future periods and no significant impact is expected. The Group has chosen not to early adopt any of the above standards and interpretations.

4. 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 2007.

Notes to the interim financial statements continued
5 Segmental analysis

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

Six months to 31 December 2007	**Construction £m**	**Support Services £m**	**Homes £m**	**Property £m**	**Infrastructure Investment £m**	**Centre £m**	**Group £m**
Revenue							
Group and share of joint ventures	**816.1**	**179.3**	**143.2**	**58.3**	**8.6**	**-**	**1,205.5**
Less share of joint ventures	-	-	-	(23.0)	(7.9)	-	**(30.9)**
Group revenue	816.1	179.3	143.2	35.3	0.7	-	**1,174.6**
Profit							
Group operating profit	14.3	6.2	19.9	5.7	(0.6)	(3.6)	**41.9**
Share of joint ventures' operating profit	-	-	0.2	1.8	0.8	-	**2.8**
Group and share of joint ventures	**14.3**	**6.2**	**20.1**	**7.5**	**0.2**	**(3.6)**	**44.7**
Share of joint ventures - finance cost	-	-	-	(0.6)	(0.9)	-	**(1.5)**
- tax	-	-	-	(0.8)	(0.1)	-	**(0.9)**
Profit from operations	**14.3**	**6.2**	**20.1**	**6.1**	**(0.8)**	**(3.6)**	**42.3**
Finance income/(cost)	10.3	0.1	(7.9)	(0.9)	0.9	(0.2)	**2.3**
Profit before tax	**24.6**	**6.3**	**12.2**	**5.2**	**0.1**	**(3.8)**	**44.6**
Balance sheet							
Total assets	304.8	98.5	445.9	57.7	12.2	31.8	**950.9**
Total liabilities	(596.3)	(101.4)	(92.5)	(10.0)	(10.2)	(96.5)	**(906.9)**
Net operating assets/(liabilities)	(291.5)	(2.9)	353.4	47.7	2.0	(64.7)	**44.0**
Cash, net of debt	378.9	18.9	(216.3)	(25.2)	(8.4)	(12.0)	**135.9**
Net assets	**87.4**	**16.0**	**137.1**	**22.5**	**(6.4)**	**(76.7)**	**179.9**

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

Notes to the interim financial statements continued

5 Segmental analysis continued

Year to 30 June 2007	Construction £m	Support Services £m	Homes £m	Property £m	Infrastructure Investment £m	Centre £m	Group £m
Revenue							
Group and share of joint ventures	1,411.2	315.5	325.1	61.3	14.8	-	2,127.9
Less share of joint ventures	-	-	-	(48.7)	(13.8)	-	(62.5)
Group revenue	1,411.2	315.5	325.1	12.6	1.0	-	2,065.4
Profit							
Group operating profit	21.9	10.2	47.4	6.9	(1.1)	(10.4)	74.9
Share of joint ventures' operating profit	-	-	0.4	5.2	1.7	-	7.3
Group and share of joint ventures	21.9	10.2	47.8	12.1	0.6	(10.4)	82.2
Share of joint ventures - finance cost	-	-	-	(1.7)	(1.2)	-	(2.9)
- tax	-	-	(0.1)	(1.1)	(0.2)	-	(1.4)
Profit from operations	21.9	10.2	47.7	9.3	(0.8)	(10.4)	77.9
Finance income/(cost)	16.2	0.3	(14.9)	(1.7)	1.5	(1.7)	(0.3)
Profit before tax	38.1	10.5	32.8	7.6	0.7	(12.1)	77.6
Balance sheet							
Total assets	325.2	95.0	418.8	61.9	15.3	27.3	943.5
Total liabilities	(603.0)	(96.4)	(123.3)	(4.5)	(4.8)	(76.9)	(908.9)
Net operating assets/(liabilities)	(277.8)	(1.4)	295.5	57.4	10.5	(49.6)	34.6
Cash, net of debt	361.2	15.8	(163.9)	(36.8)	(7.6)	(20.3)	148.4
Net assets	83.4	14.4	131.6	20.6	2.9	(69.9)	183.0

6 Taxation

The taxation charge for the six months ended 31 December 2007 has been calculated at 29% (June 2007 29%, December 2006 29%) of underlying profit before tax, being profits adjusted for the Group's share of tax in equity accounted joint ventures. This represents the estimated effective rate of tax for the year.

	Unaudited 31 December 2007 £m	Unaudited 31 December 2006 £m	30 June 2007 £m
Profit before tax	**44.6**	36.2	77.6
Add: tax on joint ventures	**0.9**	0.9	1.4
Underlying profit before tax	**45.5**	37.1	79.0
Current tax	**10.1**	8.0	17.1
Deferred tax	**2.2**	1.9	4.2
Total income tax expense in the income statement	**12.3**	9.9	21.3
Add: tax on joint ventures	**0.9**	0.9	1.4
Underlying tax charge	**13.2**	10.8	22.7
Rate	**29%**	29%	29%

7 Dividends

Amounts recognised as distributions to equity holders in the period.

	Unaudited 31 December 2007 £m	Unaudited 31 December 2006 £m	30 June 2007 £m
Final dividend for the year ended 30 June 2007 of 40.4 pence (2006: 17.8 pence)	**14.5**	6.3	6.3
Interim dividend for the year ended 30 June 2007 of 9.6 pence	**-**	-	3.5
	14.5	6.3	9.8

The proposed interim dividend of 18.0 pence (2007: 9.6 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £6.5m will be paid on 2 May 2008 to shareholders on the register at the close of business on 14 March 2008. A scrip dividend alternative will be offered.

8 Earnings per share

	Unaudited 31 December 2007 £m	Unaudited 31 December 2006 £m	30 June 2007 £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**31.8**	26.3	55.5
Add: amortisation of intangible assets	**1.0**	1.0	2.0
Less: tax on the amortisation of intangible assets	**(0.3)**	(0.3)	(0.6)
Adjusted earnings	**32.5**	27.0	56.9
	million	million	million
Weighted average number of shares used for earnings per share			
- basic	**36.0**	35.6	35.8
- diluted	**36.2**	36.1	36.3
	pence	pence	pence
Earnings per share			
- basic	**88.3**	73.9	155.0
- diluted	**87.8**	72.9	152.9
Adjusted earnings per share (excluding the amortisation of intangible assets)			
- basic	**90.3**	75.8	158.9
- diluted	**89.8**	74.8	156.7

9 Property, plant and equipment

During the six months ended 31 December 2007 the Group acquired assets with a cost of £10.2m (2006: £9.6m). Assets with a carrying amount of £0.5m were disposed of during the period (2006: £0.6m) resulting in a gain on disposal of £0.6m (2006: £0.3m), which is included within gross profit.

10 Retirement benefit obligations

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

	Unaudited 31 December 2007 £m	Unaudited 31 December 2006 £m	30 June 2007 £m
Kier Group Pension Scheme			
Opening deficit	**(30.6)**	(67.0)	(67.0)
Charge to operating profit	**(3.9)**	(5.9)	(11.3)
Employer contributions	**9.5**	14.7	24.0
Actuarial (losses)/gain	**(15.8)**	10.1	23.7
Closing deficit	**(40.8)**	(48.1)	(30.6)
Comprising			
Total market value of assets	**535.3**	514.6	506.7
Present value of liabilities	**(576.1)**	(562.7)	(537.3)
Deficit	**(40.8)**	(48.1)	(30.6)
Related deferred tax asset	**11.5**	14.4	8.7
Net pension liability	**(29.3)**	(33.7)	(21.9)
Kier Sheffield LLP			
Opening surplus	**11.9**	6.8	6.8
Credit/(charge) to operating profit	**0.1**	(0.8)	(0.4)
Employer contributions	**0.6**	0.8	1.6
Actuarial (losses)/gain	**(3.4)**	-	3.9
Closing surplus	**9.2**	6.8	11.9
Comprising			
Total market value of assets	**140.6**	129.8	136.7
Present value of liabilities	**(131.4)**	(123.0)	(124.8)
Surplus	**9.2**	6.8	11.9
Restriction on pension surplus	**(2.9)**	-	(5.1)
	6.3	6.8	6.8
Related deferred tax liability	**(1.8)**	(2.0)	(1.9)
Net pension asset	**4.5**	4.8	4.9

Notes to the interim financial statements continued

11 Reconciliation of changes in total equity

	Unaudited 31 December 2007 £m	Unaudited 31 December 2006 £m	30 June 2007 £m
Opening equity	**183.0**	108.5	108.5
Recognised income and expense for the period	**10.6**	33.4	79.4
Dividends paid to equity holders of the parent	**(14.5)**	(6.3)	(9.8)
Distributions to minority interests	**(0.8)**	-	-
Issue of own shares	**5.5**	2.7	7.0
Purchase of own shares	**(5.5)**	(0.4)	(8.7)
Share-based payments charge	**1.6**	1.6	3.9
Deferred tax on share-based payments	**-**	-	2.7
Closing shareholders' equity	**179.9**	139.5	183.0

12 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 earnings per share growth targets. Full details of the plan are disclosed in the annual financial statements.

On 21 September 2007 293,229 shares vested, valued at 1,815.0p in satisfaction of conditional awards made under the LTIP in 2004 (directors 127,648, employees 165,581).

On 16 October 2007 a further grant was made under the LTIP as follows:

Shares awarded	- directors	92,516
	- employees	125,874
		218,390
Share price at grant		1,984.0p
Exercise price		nil
Option life		3 years
Dividend yield		2.5%
Fair value per option based upon the Black-Scholes model		1,840.0p

13 Related parties

There have been no 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 2007.

14 Subsequent event

Subsequent to the interim balance sheet date, the Group sold its investment in Prospect Healthcare (Hairmyres) Group Limited for £13.8m. The consideration was received wholly in cash on 8 February 2008. The sale will result in the recognition of a profit of £16.2m in the results for the financial year ending 30 June 2008.

Statement of directors' responsibilities

The directors confirm that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8.

The directors also confirm that the interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union.

The directors of Kier Group plc are:

P M White (non-executive chairman)
J Dodds (chief executive)
I M Lawson
D E Mattar (finance director)
M O'Farrell
M P Sheffield
R W Side
R W Simkin
C V Geoghegan (non-executive) appointed 1 July 2007
S W Leathes (non-executive).

Signed on behalf of the Board

J Dodds
D E Mattar

26 February 2008

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 interim financial report for the six months ended 31 December 2007 which comprises the consolidated balance sheet of Kier Group plc as at 31 December 2007, the related consolidated statements of income, recognised income and expense, cash flows for the six month period then ended and the related explanatory notes. 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 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 (DTR) of the UK's Financial Services Authority (UK FSA). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim financial report 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 DTR of the UK FSA.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim 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 interim financial report for the six months ended 31 December 2007 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union and the DTR of the UK FSA.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

26 February 2008