News Release

KIER

KIER GROUP PLC
INTERIM RESULTS FOR THE
SIX MONTHS TO 31 DECEMBER 2011

23 February 2012

- Total revenue of £1,046m (2010: £1,097m)
- Underlying pre-tax profits* of £34.0m (2010: £31.3m)
- Underlying EPS* of 70.3p (2010: 63.5p)
- Construction margins at 2.5% (2010: 2.7%) and Services margins* at 4.5% (2010: 4.5%)
- Interim dividend of 21.5p (2010: 20p)
- Group net cash of £131m at 31 December 2011 (30 June 2011: £165m), after approximately £33m reinvestment in the Group
- Order books for Construction and Services maintained at more than £4bn following £830m of awards in the period
- Construction order books have targeted revenue for 2012 and 68% of the target for 2013 secured or probable
- Services order books have secured 95% of targeted revenue for 2012 and 76% of the target for 2013

*Underlying margins, pre-tax profits and EPS are stated before amortisation of intangible assets of £1.7m (2010: £1.7m)

Commenting on the results, Phil White, chairman said:

"I am pleased to report a good set of results for Kier for the six months ended 31 December 2011. The increase in underlying pre-tax profits to £34.0m and the continued strong cash position demonstrate the strength of the Group's performance and we expect this good performance to continue for the full year.

"As we look to the medium term, conditions continue to be difficult in the UK construction market and we are inevitably seeing greater pressure on our current operating margins. In Services, public sector outsourcing opportunities are taking longer to come to market and are often reduced in scale, which means the financial effect of any public sector outsourcing is not likely to be recognised until 2014.

"The Group has more than £4bn of secured and probable work in Construction and Services, and a growing Property division, all of which provide a well balanced platform for the future.

"Given the six-month performance and our cash position, the Board is pleased to announce an interim dividend of 21.5p and expects to maintain a one-third: two-thirds split for the current financial year."

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

"Kier continues to perform in line with expectations despite the challenges that we face in many of the markets in which we operate. The Group has delivered a good set of results for the six-month period to 31 December 2011, with strong operating margins, a healthy cash position and robust order books.

"The next 18 months will remain challenging as external macroeconomic factors weigh heavily on the public sector and the confidence of the private sector to invest. We will, however, continue to focus on those markets where we see the most potential for future growth.

"In Construction, we are encouraged by the opportunities in power, transport, waste and in our overseas operations; in Services, we continue to pursue opportunities to grow the Facilities Management (FM) and Environmental businesses; and in Property, our development pipeline and land bank provide a strong platform for attractive returns over the medium term.

"Our well balanced, integrated business model, coupled with our strong balance sheet, will provide greater resilience during these more testing times which, together with our committed and talented people, should underpin our future performance.

“I am also pleased to announce that at the end of November 2011 The Kier Foundation was formally given charitable status by the Charity Commission. The Foundation and its Trustees will support our businesses’ already impressive list of charitable activities carried out within the local communities in which we work. We have also signed a two-year partnership with Barnardo’s to give focus to our fundraising activities and to give us an opportunity to help some of the neediest young people in society today.”

Chief Executive's Review

Overview

The Group has continued to perform well and has delivered a good set of interim results to 31 December 2011, which is testament to the strength of our integrated and well-balanced business model in this increasingly competitive environment.

Underlying profit before tax for the half-year increased by 9% to £34.0m (2010: £31.3m). Our cash position continues to be strong with net cash of £131m at 31 December 2011 and average month-end balances of £110m, after further investment in our own business of approximately £33m.

In Construction, we achieved revenues of £720m (2010: £728m) at an operating margin of 2.5% delivering £17.8m of operating profit (2010: £19.8m). Our focus continues to be the provision of intelligent, value-engineered solutions working in partnership with our customers. Our significant number of framework agreements, long-standing customer relationships and consistently good execution underpin our awards and order books, which have remained robust at £2.2bn at 31 December 2011 (June 2011: £2.2bn). All of our targeted revenue for the current financial year and 68% of our targeted revenue for 2012/13 is secure or probable (2010: 65%), with our workload increasingly focused towards the private sector.

In Services, revenue decreased to £218m (2010: £243m) reflecting a lower level of activity in Maintenance, as a result of the ongoing budget pressures faced by our local authority customers, particularly in the area of capital works. This was, however, partially mitigated by an improvement in the FM and Environmental businesses where revenue improved through successful contract renewals and extensions. Overall our order books have remained stable at £2.0bn (June 2011: £2.0bn), while operating margins, before amortisation of intangible assets, were sustained at 4.5% (2010: 4.5%), generating £9.8m of operating profit (2010: £10.9m), supported by a good cash performance. We remain focused on the growth of this division, particularly in FM and Environmental, so as to increase our scale and further improve operating performance.

The Property division achieved a strong first half result, with an operating profit of £10.0m (2010: £3.4m), well ahead of the same period in 2010. This performance demonstrates the strength and breadth of this division, which now encompasses our Property Development, Structured Property Finance (PFI) and Homes businesses. Despite reduced levels of credit and uncertain investor confidence, our strong financial position and the pipeline of opportunities provides a platform for growth in this division, while maintaining our non-speculative approach to new schemes.

In summary, Kier has responded well to the increasingly challenging environment and we are constantly reviewing our cost base as markets become more competitive. We are well positioned to win work in growth markets that will strengthen the business in the medium term.

Financial Results

Total revenue for the six months to 31 December 2011 decreased by 4% on the same period in 2010 to £1,046m (2010: £1,097m) resulting principally from a decline in activity in our Services division.

Underlying profit before tax grew by 9% to £34.0m (2010: £31.3m) reflecting a stable performance in Construction and Services and a significantly increased contribution from Property. Our Construction revenues converted into an operating profit of £17.8m, providing a 2.5% operating margin (2010: 2.7%). In Services, after adding back amortisation, we achieved an operating profit of £9.8m which equates to a strong operating margin of 4.5% (2010: 4.5%). In Property, the £10.0m operating profit was well ahead of the result in the same period in 2010 reflecting a steady performance in our Homes businesses and an increasing level of profit derived from our Property Development and Structured Property Finance businesses.

The increase in the Group's net finance cost is primarily a result of the interest unwind on the deferred consideration following the Lloyd's property transaction, which completed in April 2011. We have two tranches of consideration totalling £56m, due in October 2012 and October 2013.

The effective tax rate of 20% compares favourably with the rate in 2010, following agreement on certain issues with HM Revenue & Customs. Underlying earnings per share of 70.3p has increased by 11% and has benefitted from the lower effective tax rate (2010: 63.5p).

The management of cash continues to be of critical focus across the Group and we are pleased that the trading result is supported by a good cash performance. Net month-end cash balances in the period averaged £110m, ending the period at a net balance of £131m (June 2011: £165m). This is after reinvestment of circa £33m of cash in the business over the past six months to drive future growth. In addition to our own net cash position, we have £90m of undrawn committed banking facilities that are available until 2014.

Net assets at 31 December 2011 have remained stable at £158m (June 2011: £164m).

Taking into account the performance of the Group and its strong cash position, the Board is pleased to announce an increase to the interim dividend of 8% to 21.5p (2010: 20.0p). The interim dividend is well covered by adjusted earnings per share and reflects the Board's confidence in the business going forward. The interim dividend will be paid to shareholders on 11 May 2012 and the scrip dividend alternative will also be available.

Construction

The Construction division encompasses our UK building, infrastructure and overseas businesses, all of which are highly skilled in the construction of the full range of building projects, together with power, waste, infrastructure and mining projects.

Whilst Construction revenue for the six months to 31 December 2011 decreased slightly to £720m (2010: £728m), this reflects a robust performance in light of the ongoing challenging market conditions. This performance is underpinned by our involvement on more than 70 frameworks, the flexibility of our workforce in being able to move between a variety of sectors and our consistent track record of delivery, all of which support our long-term relationships with customers.

Operating profit of £17.8m (2010: £19.8m) highlights the competitive pressures faced by the construction sector. This equates to a 2.5% (2010: 2.7%) operating margin reflecting the high quality work we carry out, much of which is through frameworks and similar arrangements which accounted for approximately 60% of our awards in the six-month period. We are, however, seeing a tightening in the market that will inevitably put greater pressure on our operating margins over the next 18 months. Cash levels, one of the key measures in this division, continued to be strong with cash balances of £414m at 31 December 2011 (30 June 2011: £423m).

Contract awards in the period were maintained at approximately £700m and, together with the secured position and the level of ‘probable’ awards (comprising contracts on which we are the preferred bidder or are in one-to-one negotiations), provided order books of £2.2bn (30 June 2011: £2.2bn). This secures all of our targeted revenue for the current financial year and 68% of the target for 2012/13, a similar position to 31 December 2010.

In the period, 48% of our awards were for UK public sector projects, compared with 63% for the same period in 2010, with education continuing to be our largest source of work accounting for some 32% (circa £200m) of awards (2010: 34%). The replacement Contractors’ Framework for Academies continues to provide a steady stream of opportunities and we have entered into contract for nine schools with an order value of £150m, with a further four schools with a value of £50m nearing financial close. Potential opportunities under this framework for the first quarter of 2012 are circa £250m and we retain a keen interest in the forthcoming Priority Schools Building Programme.

In the healthcare sector, the Procure 21+ Framework continues to generate excellent opportunities with over £350m of schemes that come to market in the six-month period, and Kier has been selected for six of them, with a potential value in excess of £100m. We have been awarded a place as one of three construction delivery partners for the Design for Life Wales regional frameworks for delivery of healthcare projects of up to £10m each and we are pursuing the National Framework for projects over £10m.

In September 2011, Kier was awarded the £1bn four-year Scape Framework (in partnership with the Services division) as the exclusive delivery partner for public sector capital works projects of up to £2m throughout the UK. Early interest is encouraging with more than £100m of projects currently in development.

In the private sector commercial building market, the emphasis remains largely south-east and London focused. During this period Kier commenced construction on the £42m Arthouse at King’s Cross in London and was appointed as preferred contractor to build the Camden Civic Offices at King’s Cross, valued at £64m.

Over the past six months, Kier Living has been established as a focus to target the care home, student accommodation and high-rise affordable housing markets throughout the UK. We have secured positions on 10 frameworks valued at circa £2.5bn, which are expected to provide good quality work in these sectors. So far this year, Kier Living has secured over £40m of new work.

Our Process & Engineering business continues to grow and its success, supported by the use of building information management (BIM) technology, will bring improved efficiency and value to our customers as we increase adoption through 2012 in response to the Government Construction Strategy.

As expected, our Infrastructure business continues to be successful in the expanding transport, power and waste markets in the UK and overseas.

Building on our previous major contract awards on the Crossrail project in London, we have been awarded in joint venture a further £210m contract for major works at Farringdon Station. This brings the total awards on Crossrail, in joint venture, to date to more than £800m and we are continuing to tender for further major works.

In power, we have been awarded a £100m+ contract, in joint venture, by EDF Energy to carry out site preparation works for Hinkley Point C nuclear power station in Somerset. This is the first major package to be let as part of the new nuclear programme.

The £50m energy-from-waste plant in Plymouth, awarded to Kier last year, has now seen all the necessary approvals granted and we have mobilised on site. The £45m Wakefield waste treatment facility is another good opportunity, for which we are preferred bidder, and we anticipate financial close during the second half of 2012.

In our overseas operations, good progress is being made on our Hong Kong contracts, totalling more than £300m in joint venture, for the Mass Transit Railway Corporation, and we continue to pursue other infrastructure opportunities arising from Hong Kong's multi-year infrastructure plan. In Jamaica, we were pleased to be awarded a £17m contract to deliver a hydroelectric power station expansion project in St Elizabeth and we have secured our first project in Haiti, an office refurbishment for Digicel. In Saudi Arabia, we are making good progress at the Al Jalamid phosphate mine. The reputation we have established is now leading to other potential mining opportunities with our client, Ma'aden. We are also pursuing a number of education, industrial and infrastructure opportunities.

Overall, the Construction division is well positioned in its key markets. Our strong order books and the core of our new work coming through frameworks in the UK provide a stable platform from which to target the areas where we see the best opportunities for growth, both in the UK and overseas. Inevitably, the current trading environment will see a tightening of margins as competition increases and management of our working capital will become more challenging. However, we will continue to focus on good quality work where we can best utilise the flexibility and technical capability of our workforce.

Services

Services comprises three main businesses: Maintenance, which provides both planned and reactive maintenance largely to local authorities and housing associations; Facilities Management (FM), providing services to public and private sector clients; and Environmental, offering services for domestic and commercial waste collection, street scene and grounds maintenance and the management and operation of a major recycling facility.

Revenue in Services during the half-year period decreased by 10% to £218m (2010: £243m) principally due to a lower level of activity in Maintenance, reflecting more than 40% reductions in the capital works areas of our established contracts, which is partly mitigated by contract renewals and extensions in the FM and Environmental businesses.

Operating profit, before deducting amortisation of intangible assets of £1.7m (2010: £1.7m), decreased by 10% to £9.8m (2010: £10.9m), in line with revenue, maintaining the operating margin at 4.5% (2010: 4.5%). Cash generation was good with cash balances at 31 December 2011 of £16m (30 June 2011: £28m) after further investment in plant, vehicles and in our recycling plant totalling £10m during the six-month period.

The order book at 31 December 2011 of £2.0bn (30 June 2011: £2.0bn) showed resilience in the current market and continues to provide long-term visibility of revenues. This secures 95% of our targeted revenue for the current financial year and 76% of the target for the 2012/13 financial year. The order book figure does not include contract extensions which could add approximately £700m if all were exercised by our customers. We do not anticipate any of our significant contracts being re-tendered before 2014, which provides stability in the short term.

Maintenance, the largest part of this division, saw revenue levels decline to £140m (2010: £179m) as a direct result of the reduction in spend by local authorities, particularly in the discretionary area of capital works in our established contracts. Contracts valued at more than £40m were secured in the period, including Richmondshire Maintenance and Improvement Partnership, Wakefield District Council Housing Regeneration Partnership, South Essex Homes and Leeds East North East ALMO delivering planned maintenance activity. We are being particularly selective in our tenders for local authority maintenance work in light of an aggressive pricing environment.

During the period we were successful in accessing further framework opportunities with University of Durham (minor works), First Choice Homes Oldham (highways repairs and maintenance, procurement for housing supply and installation of insulation), Sanctuary Group (South), Shropshire Council and Scape National Minor Works Framework (in partnership with our Construction division).

In FM and Environmental, revenue increased to £78m (2010: £64m) despite the market conditions remaining competitive. In FM our current customer relationships are strong, our current contracts are performing well and in line with our expectations and a number of contracts have been successfully renewed or extended, including Legal and General valued at £7m per annum. We can clearly see the opportunity for operational synergies that could be realised by enlarged scale across this business sector and see the private sector as more receptive to outsourcing to meet their budget pressures.

The Environmental business continues to grow with new contract wins in East Northamptonshire, Waltham Forest, Tewkesbury, North Norfolk and King's Lynn and Windsor & Maidenhead. We have also been successful in securing contract extensions in Rugby and renewals with our existing clients, such as Bromley. We are benefiting from our integrated offering including street cleansing, refuse collection and downstream waste management and processing operations, where we are currently processing over 100,000 tonnes of waste per year through our Pure Recycling materials recovery facility and have capacity for additional volumes to support our growing pipeline of opportunities.

The growth we were seeing in our Energy Solutions business in the first part of the year has been affected by the dramatic change to the feed-in tariffs available for photovoltaics. However, this embryonic business is now looking to help enhance our energy saving capabilities for our many customers across the Group.

While the current economic conditions continue to provide outsourcing opportunities, we recognise that the ongoing cost pressures and consequent uncertainty particularly in the public sector will, as we predicted, mean the financial effect of any public sector outsourcing is not likely to be recognised until 2014.

The Services division has long-term contracts which provide good revenue visibility to 2020 and beyond, and with its long-standing partnership arrangements will continue to offer innovative and comprehensive solutions for customers across their estates. We remain optimistic about the medium-term growth in our core markets and will continue to progress with our strategy of seeking greater scale in our FM and Environmental businesses.

Property

Our Property division comprises three main activities: commercial, industrial, retail and mixed-use property development; structured property financing; and homes, including both private and affordable housing.

The Property division continues to focus on predominantly non-speculative property development opportunities where we know we can forward sell or pre-let key elements of the schemes thereby reducing the associated risk and demands on the Group's cash reserves.

Revenue for the six-month period to 31 December 2011 was £108m (2010: £126m), generating operating profit of £10.0m (2010: £3.4m). This was significantly ahead of the same period in 2010, as a result of the continued progress with our £700m (gross development value) property development pipeline, the ongoing strategy of selectively disposing of our mature PFI investments from our portfolio and the activities of our homes businesses. At 31 December 2011, the net operating assets of the Property Development and Structured Property Finance businesses were £60m (June 2011: £54m) and in the homes businesses were £299m (June 2011: £311m). In the Property Development business we anticipate the level of capital investment to increase to approximately £80m by June 2013, on which we are targeting a 15% return on capital.

In Property Development, we continued the development of industrial units at Uxbridge, selling two units with further sales anticipated by the year end. In December 2011, we announced the conditional disposal of our property at 3 Savile Row in London for approximately £32m, subject to certain lease and contracting works being finalised, with completion of the sale to take place by 31 March 2012.

Solum Regeneration, our joint venture with Network Rail, continues to expand with the Epsom Station regeneration scheme advancing well and all affordable and private apartments pre-sold. Construction is also underway at Walthamstow Station for a 107-bed hotel and 35 affordable apartments, all of which have been forward sold to a housing association. In December 2011, planning permission was granted for the regeneration of Twickenham Station in advance of the 2015 Rugby World Cup, with the £46m project being expected to commence later this year.

During the six-month period, the Structured Property Finance business disposed of our equity stakes in West Berkshire and Hinchingbrooke Hospitals for combined revenue of £8m, the latter being transferred to the Kier Group Pension Scheme. These sales represented a valuation discount rate of approximately 7%.

Our portfolio of PFI projects now totals eight schemes. Our committed equity investment in these schemes stands at £18.3m of which £16.8m has been invested to date. The directors' valuation of the committed investment at a discount rate of 7.5% is £30.3m. The Structured Property Finance business remains short-listed on four PFI projects with a combined capital value of circa £200m, three of which we are one of the two remaining bidders.

The residential regeneration team is progressing well with Tavy Bridge, London, where we are preferred bidder to build 294 mixed-tenure homes together with a new library and four retail units (valued at £40m). This team has also agreed a deal with the Homes and Communities Agency (HCA) and Derby Council to create around 700 new homes at the Manor & Kingsway site in Derby, valued at £100m. The regeneration team utilises and benefits from the combined resources within our Construction, Homes and Structured Property Finance businesses, which is a differentiator for Kier and positions us well for further regeneration schemes, particularly in London.

Private housing completions during the six-month period exceeded expectations at 280 completions (2010: 176 completions) whilst affordable housing at 196 completions (2010: 217 completions) were broadly in line with our expectations.

The private housing market has been stable during the period despite wider economic uncertainty. Mortgage availability remains an issue but this has been eased by the introduction of the Government's Firstbuy initiative under which we have an allocation of 231 units.

We have disposed of a further £18m of land during the six-month period on deferred terms, bringing the total for land sales to £38m since the beginning of 2011. The land bank at 31 December 2011 comprised 4,412 units which, although reducing as we have not bought any new land, remains above 3,000 units, which we believe is the level necessary to service our targeted area of operation across Central England. We continue to seek to reduce the cash investment in our land bank by developing homes for sale and disposing of parcels of land as opportunities arise.

Our strategy of re-focusing our affordable housing business to a mixed-tenure regeneration business is progressing well. Our position as a HCA investment partner, coupled with our Affordable Housing Grant allocation of 1,055 units, leaves us well placed to take advantage of the current opportunities in the affordable housing market being generated both by local authorities and housing association registered providers.

We have also secured and achieved preferred bidder status on approximately £200m of work in the first half of the year, spread over four years, which represents a forward pipeline of 1,300 plots for mixed-tenure development where we should generate a healthy blended margin with no capital requirement for land purchases.

The current financial year will be challenging for the property market, with liquidity constraints a major factor at both corporate and consumer level. However, we believe this presents Kier with a significant opportunity to utilise its strong balance sheet position to unlock viable schemes that have been unable to progress due to the lack of funding.

Increasingly, the Property division is bringing together the total skills and expertise across the Group to deliver greater value to our schemes and provides an integrated offering and service to our customers. We therefore remain confident that this division will continue to grow over the next few years, with many of its schemes already identified and secured, such that it becomes a significant, consistent and therefore predictable contributor to the Group's overall performance.

Pensions
The Group participates in two principal schemes: the Kier Group Pension Scheme which includes a defined benefit section, and a local government scheme on behalf of its employees in Kier Sheffield LLP.

At 31 December 2011, the position of the Kier Group Pension Scheme for accounting purposes was valued showing a net deficit of £25m (30 June 2011: net deficit of £23m) as a result of the changes to the key assumptions (discount rate and inflation). Following the latest triennial actuarial valuation, dated 1 April 2010, which showed a funding position of 88%, we continue to progress with the funding plan agreed with the Trustees, under which, in addition to the current annual £8m deficit contributions, we will seek to transfer the Group's PFI assets as they become available and are suitable for the Scheme.

Under the scheme relating to Kier Sheffield LLP there was a net deficit of £4m (30 June 2011: net surplus of £1m).

Health, safety and environment
Throughout the year we have continued to focus on a 'back to basics' approach to safety, health and environmental standards. Our supply chain works with us to ensure that we focus on standards at the planning stages of projects and that they are reviewed regularly to ensure suitability throughout the project life cycle.

We have had significant success in reducing our accident rates and we continue to progress our safety training programme across all of our businesses, with the inclusion of our supply chain supervisors on our training courses. This assists to develop a close working relationship on site with our operational teams.

We continue to implement our Behavioural Safety Programme across the whole Group, which has seen 29,000 targeted safety discussions during the period, a 30% increase on the period to December 2010. Our occupational health teams are also very proactive in ensuring that we have educational programmes in place that support the workforce and reduce sickness absence.

Each Kier business unit has produced and implemented a carbon reduction plan, aimed at reducing the Group's carbon emissions. We continue to make good progress in meeting our landfill commitment target by the end of 2012, which is to send only 18% of the construction, demolition and excavation waste produced by our sites to landfill.

At the 2011 Green Apple Awards for Environmental Best Practice, Kier was awarded five silver awards in recognition of its environmental performance.

Prospects
As we continue to streamline our operations and to leverage our cross-divisional capabilities, we are able to harness the value of our integrated model to the increasing benefit of our customers.

In Construction, our focus on growth markets that have higher barriers to entry, such as power, waste and transport, together with a core of work still coming through frameworks, will help us partly mitigate highly competitive pressures, over the medium term, on open-market opportunities. However, the current trading environment will see a tightening of margins over the shorter term and management of our working capital will become more challenging. Our focus remains on pursuing higher quality work where we can utilise our innovation and technical skills to deliver the best solution for our customers.

In Services, the long anticipated increase in outsourcing work is beginning to come to market. However, budget pressures on local authorities mean that some opportunities are taking longer to materialise and are often reduced in scale. In Maintenance, it is now more likely that it will be 2014 before we see the financial impact of a number of these public sector opportunities. The FM and Environmental businesses provide the best opportunities for growth in the short term and it is in these businesses that we will continue to pursue, both organically and by acquisition, greater scale to provide an enhanced operating performance.

Our Property division continues to trade well and is increasing its contribution to the Group's results. The £700m pipeline of development schemes, £30m of PFI assets and the ongoing activities of the homes businesses, including cash generation from the land bank, provide a robust platform to sustain strong performances from this division in the future.

We recognise the next 18 months will be challenging with greater pressure on margins and further cost cutting in the public sector. We will continue to position ourselves in growth markets in order to establish a larger, better-balanced business. We have a strong track record of delivery, versatile and technically capable people and enduring relationships with customers, to whom we bring innovative and leading edge solutions, all of which should underpin our future performance.

Paul Sheffield
Chief Executive

Consolidated income statement
for the six months ended 31 December 2011

	Notes	**Unaudited 6 months to 31 December 2011 Total £m**	Unaudited 6 months to 31 December 2010 Total £m	Year to 30 June 2011 Before exceptional items £m	Year to 30 June 2011 Exceptional items* £m	Year to 30 June 2011 Total £m
Revenue						
Group and share of joint ventures	5	**1,045.9**	1,096.7	2,178.8	-	2,178.8
Less share of joint ventures		**(15.5)**	(47.6)	(55.8)	-	(55.8)
Group revenue		**1,030.4**	1,049.1	2,123.0	-	2,123.0
Cost of sales		**(929.6)**	(951.7)	(1,911.5)	(33.5)	(1,945.0)
Gross profit		**100.8**	97.4	211.5	(33.5)	178.0
Administrative expenses		**(74.1)**	(68.3)	(151.8)	(0.8)	(152.6)
Credit on retirement benefit obligation		**-**		-	25.7	25.7
Movement in provision for fine imposed by the Office of Fair Trading		**-**	-	-	15.6	15.6
Share of post tax results of joint ventures		**0.3**	0.6	0.4	-	0.4
Profit on disposal of joint ventures		**6.7**	-	5.9	-	5.9
Profit from operations	5	**33.7**	29.7	66.0	7.0	73.0
Finance income		**1.4**	1.8	3.7	-	3.7
Finance cost		**(2.8)**	(1.9)	(4.2)	-	(4.2)
Profit before tax	5	**32.3**	29.6	65.5	7.0	72.5
Income tax	7	**(6.4)**	(7.0)	(12.3)	2.1	(10.2)
Profit for the period		**25.9**	22.6	53.2	9.1	62.3
Attributable to:						
Equity holders of the parent		**25.3**	22.3	52.7	9.1	61.8
Minority interests		**0.6**	0.3	0.5	-	0.5
		25.9	22.6	53.2	9.1	62.3
Earnings per share						
- basic	9	**67.1p**	60.3p	141.7p		166.1p
- diluted		**66.2p**	59.6p	139.8p		163.9p
Adjusted earnings per share (excluding the amortisation of intangible assets)						
- basic	9	**70.3p**	63.5p	148.4p		
- diluted		**69.4p**	62.8p	146.4p		

There were no exceptional items during the six months ended 31 December 2011, or the six months ended 31 December 2010.

*Exceptional items in the year ended 30 June 2011 as detailed in note 6 relate to

- movement in the provision for a fine imposed by the Office of Fair Trading;
- property, land and work in progress write-downs;
- acquisition costs; and
- past service credit on retirement benefit obligation.

All results are derived from continuing operations.

Consolidated statement of comprehensive income

for the six months ended 31 December 2011

	Unaudited 6 months to 31 December 2011 £m	Unaudited 6 months to 31 December 2010 £m	Year to 30 June 2011 £m
Profit for the period	**25.9**	22.6	62.3
Other comprehensive income/(loss)			
Share of joint venture recycling of cash flow hedge movements	**-**	-	10.1
Share of joint venture fair value movements in cash flow hedging instruments	**(8.3)**	(3.5)	(4.7)
Actuarial (losses)/gains on defined benefit pension schemes	**(21.7)**	14.5	12.6
Other comprehensive (loss)/income before taxation	**(30.0)**	11.0	18.0
Deferred tax on items recognised directly in equity (including effect of change in tax rate)			
Share of joint venture cash flow hedging instruments	**1.9**	0.8	(1.7)
Actuarial losses/(gains) on defined benefit pension schemes	**3.4**	(6.2)	(7.8)
Taxation credit/(charge) on other comprehensive (loss)/income	**5.3**	(5.4)	(9.5)
Other comprehensive (loss)/income for the period	**(24.7)**	5.6	8.5
Total comprehensive income for the period	**1.2**	28.2	70.8
Attributable to:			
Equity holders of the parent	**0.6**	27.9	70.3
Minority interests	**0.6**	0.3	0.5
	1.2	28.2	70.8

Consolidated statement of changes in equity

for the six months ended 31 December 2011

	Share capital £m	**Share premium £m**	**Capital redemption reserve £m**	**Retained earnings £m**	**Cash flow hedge reserve £m**	**Translation reserve £m**	**Attributable to equity holders of the parent £m**	**Minority interests £m**	**Total equity £m**
At 30 June 2010	0.4	38.8	2.7	72.5	(11.3)	0.2	103.3	0.9	104.2
Profit for the period	-	-	-	22.3	-	-	22.3	0.3	22.6
Other comprehensive income/(loss) for the period	-	-	-	8.3	(2.7)	-	5.6	-	5.6
Dividends paid	-	-	-	(14.6)	-	-	(14.6)	(0.4)	(15.0)
Issue of own shares	-	5.0	-	-	-	-	5.0	-	5.0
Share-based payments charge	-	-	-	1.4	-	-	1.4	-	1.4
At 31 December 2010	0.4	43.8	2.7	89.9	(14.0)	0.2	123.0	0.8	123.8
Profit for the period	-	-	-	39.5	-	-	39.5	0.2	39.7
Other comprehensive (loss)/income for the period	-	-	-	(3.5)	6.4	-	2.9	-	2.9
Dividends paid	-	-	-	(7.5)	-	-	(7.5)	(0.1)	(7.6)
Issue of own shares	-	3.1	-	-	-	-	3.1	-	3.1
Share-based payments charge	-	-	-	1.3	-	-	1.3	-	1.3
Tax on share-based payments	-	-	-	1.0	-	-	1.0	-	1.0
At 30 June 2011	0.4	46.9	2.7	120.7	(7.6)	0.2	163.3	0.9	164.2
Profit for the period	-	-	-	25.3	-	-	25.3	0.6	25.9
Other comprehensive loss for the period	-	-	-	(18.3)	(6.4)	-	(24.7)	-	(24.7)
Dividends paid	-	-	-	(16.6)	-	-	(16.6)	-	(16.6)
Issue of own shares	-	7.6	-	-	-	-	7.6	-	7.6
Share-based payments charge	-	-	-	1.3	-	-	1.3	-	1.3
At 31 December 2011	**0.4**	**54.5**	**2.7**	**112.4**	**(14.0)**	**0.2**	**156.2**	**1.5**	**157.7**

Consolidated balance sheet
at 31 December 2011

	Notes	Unaudited 31 December 2011 £m	Unaudited 31 December 2010 £m	30 June 2011 £m
Non-current assets				
Intangible assets		**25.3**	28.6	27.0
Property, plant and equipment	10	**103.3**	87.5	96.0
Investment in joint ventures		**5.7**	28.3	9.1
Retirement benefit asset	11	**-**	-	1.5
Deferred tax assets		**31.9**	17.7	34.4
Trade and other receivables		**21.5**	20.0	17.6
Non-current assets		**187.7**	182.1	185.6
Current assets				
Inventories		**408.6**	419.7	430.9
Trade and other receivables		**346.1**	282.3	329.9
Income tax receivable		**4.3**	-	3.0
Other financial assets		**-**	-	0.2
Cash and cash equivalents		**161.3**	174.5	195.1
Current assets		**920.3**	876.5	959.1
Total assets		**1,108.0**	1,058.6	1,144.7
Current liabilities				
Other financial liabilities		**(0.1)**	(0.1)	-
Trade and other payables		**(787.4)**	(751.2)	(799.2)
Tax liabilities		**-**	(1.2)	-
Provisions		**(1.6)**	(19.5)	(10.0)
Current liabilities		**(789.1)**	(772.0)	(809.2)
Non-current liabilities				
Long-term borrowings		**(30.3)**	(30.3)	(30.3)
Trade and other payables		**(45.9)**	(20.1)	(68.3)
Retirement benefit obligations	11	**(39.1)**	(65.6)	(31.1)
Provisions		**(45.9)**	(43.3)	(41.2)
Deferred tax liabilities		**-**	(3.5)	(0.4)
Non-current liabilities		**(161.2)**	(162.8)	(171.3)
Total liabilities		**(950.3)**	(934.8)	(980.5)
Net assets		**157.7**	123.8	164.2
Equity				
Share capital		**0.4**	0.4	0.4
Share premium		**54.5**	43.8	46.9
Capital redemption reserve		**2.7**	2.7	2.7
Retained earnings		**112.4**	89.9	120.7
Cash flow hedge reserve		**(14.0)**	(14.0)	(7.6)
Translation reserve		**0.2**	0.2	0.2
Equity attributable to equity holders of the parent		**156.2**	123.0	163.3
Minority interests		**1.5**	0.8	0.9
Total equity		**157.7**	123.8	164.2

Consolidated cash flow statement

for the six months ended 31 December 2011

	Unaudited 6 months to 31 December 2011 £m	Unaudited 6 months to 31 December 2010 £m	Year to 30 June 2011 £m
Cash flows from operating activities			
Profit before tax	**32.3**	29.6	72.5
Adjustments for exceptional items			
Credit on retirement benefit obligation	**-**	-	(25.7)
Movement in provision for fine imposed by the Office of Fair Trading	**-**	-	(15.6)
Acquisition costs	**-**	-	0.8
Property, land and work in progress write-downs	**-**	-	33.5
Other adjustments			
Share of post tax results of joint ventures	**(0.3)**	(0.6)	(0.4)
Normal contributions to pension fund in excess of pension charge	**(5.1)**	(3.1)	(6.8)
Equity settled share-based payments charge	**1.3**	1.4	2.7
Amortisation and impairment of intangible assets	**1.7**	1.7	3.4
Depreciation charges	**6.9**	7.2	14.5
Profit on disposal of joint ventures	**(6.7)**	-	(5.9)
Profit on disposal of property, plant & equipment	**(0.7)**	(0.6)	(4.3)
Net finance cost	**1.4**	0.1	0.5
Operating cash flows before movements in working capital	**30.8**	35.7	69.2
Special contributions to pension fund	**(7.1)**	(4.0)	(12.5)
Payment of acquisition costs	**-**	-	(0.8)
Payment of fine imposed by the Office of Fair Trading	**-**	-	(1.7)
Decrease/(increase) in inventories	**22.3**	(12.5)	19.9
(Increase)/decrease in receivables	**(20.3)**	43.9	4.2
Decrease in payables	**(36.0)**	(61.8)	(24.1)
(Decrease)/increase in provisions	**(3.8)**	1.5	7.7
Cash (outflow)/inflow from operating activities	**(14.1)**	2.8	61.9
Dividends received from joint ventures	-	0.1	0.1
Interest received	**1.8**	1.7	2.7
Income taxes paid	**(2.2)**	(5.8)	(11.4)
Net cash (used in)/generated from operating activities	**(14.5)**	(1.2)	53.3
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment	**1.5**	1.1	14.8
Proceeds from sale of joint ventures	**8.1**	-	13.7
Purchases of property, plant & equipment	**(14.4)**	(10.9)	(28.4)
Purchase of intangible assets	**-**	-	(1.4)
Acquisition of subsidiaries, including net borrowings acquired	**(0.2)**	(1.8)	(37.7)
Net investment in joint ventures	**(3.8)**	(6.6)	(6.8)
Net cash used in investing activities	**(8.8)**	(18.2)	(45.8)
Cash flows from financing activities			
Proceeds from issue of share capital	**0.2**	0.1	0.2
Interest paid	**(1.5)**	(1.6)	(3.4)
Dividends paid to equity shareholders	**(9.2)**	(9.7)	(14.2)
Dividends paid to minority interests	**-**	(0.4)	(0.5)
Net cash used in financing activities	**(10.5)**	(11.6)	(17.9)
Decrease in cash and cash equivalents	**(33.8)**	(31.0)	(10.4)
Opening cash and cash equivalents	**195.1**	205.5	205.5
Closing cash and cash equivalents	**161.3**	174.5	195.1
Reconciliation of net cash flow to movement in net funds			
Decrease in cash and cash equivalents	**(33.8)**	(31.0)	(10.4)
Opening net funds	**164.8**	175.2	175.2
Closing net funds	**131.0**	144.2	164.8
Net funds consist of:			
Cash and cash equivalents	**161.3**	174.5	195.1
Long-term borrowings	**(30.3)**	(30.3)	(30.3)
Net funds	**131.0**	144.2	164.8

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 2011 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

The comparative figures for the financial year ended 30 June 2011 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Statement of compliance

These interim condensed financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure and Transparency Rules (DTR) of the Financial Services Authority. They do not include all of the information required for the full annual financial statements, and should be read in conjunction with the financial statements of the Group as at, and for the year ended, 30 June 2011.

These interim condensed financial statements were approved by the directors on 22 February 2012.

3. Significant accounting policies

Except as disclosed below, 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 2011.

The following amendments to standards or interpretations are mandatory for the first time for the financial year ending 30 June 2012:
IAS 24 'Related party disclosures (revised 2009)'
IFRIC 14 'Amendment – prepayments of a minimum funding requirement'

The adoption of these amendments and interpretations has not resulted in changes to the Group's accounting policies and has not had a material impact on amounts reported for the current or prior years.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year ending 30 June 2012:
IAS 27 'Separate financial statements (revised 2011)'
IAS 28 'Investments in associates and joint ventures (revised 2011)'
IAS 32 'Amendment – offsetting financial assets and financial liabilities'
IFRS 9 'Financial instruments'
IFRS 10 'Consolidated financial statements'
IFRS 11 'Joint arrangements'
IFRS 12 'Disclosures of interest in other entities'
IFRS 13 'Fair value measurement'
IFRIC 20 'Stripping costs in the production phase of a surface mine'
Improvements to IFRS's (2010)

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 adopt any of the above standards and interpretations early.

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 2011.

5. Segmental analysis

During the year to 30 June 2011 the Group comprised four divisions: Construction, Services, Property and Homes and it was on this basis that the Group presented its primary segmental information.

Recognising the reduced scale of the Homes division, the Group combined the predominantly asset based operations of the Property and Homes divisions on 1 July 2011 into a single Property division.

The revised structure comprises three divisions, Construction, Services and Property and is the basis on which the Group now reports its primary segmental information. The results for the six months to 31 December 2010 and the year to 30 June 2011 have been restated accordingly.

Notes to the interim financial statements continued

5. Segmental analysis continued

Six months to 31 December 2011	**Construction £m**	**Services £m**	**Property £m**	**Centre £m**	**Group £m**
Revenue[1]					
Group and share of joint ventures	**720.3**	**217.7**	**107.9**	**-**	**1,045.9**
Less share of joint ventures	(1.2)	-	(14.3)	-	**(15.5)**
Group revenue	719.1	217.7	93.6	-	**1,030.4**
Profit					
Group operating profit	17.8	8.1	2.8	(2.0)	**26.7**
Share of joint ventures' operating profit	-	-	0.5	-	**0.5**
Profit on disposal of joint ventures	-	-	6.7	-	**6.7**
Group and share of joint ventures	**17.8**	**8.1**	**10.0**	**(2.0)**	**33.9**
Share of joint ventures - finance cost	-	-	(0.1)	-	**(0.1)**
- tax	-	-	(0.1)	-	**(0.1)**
Profit from operations	**17.8**	**8.1**	**9.8**	**(2.0)**	**33.7**
Finance income/(cost)[2]	7.1	(0.5)	(7.0)	(1.0)	**(1.4)**
Profit before tax	**24.9**	**7.6**	**2.8**	**(3.0)**	**32.3**
Balance sheet					
Total assets excluding cash	325.1	136.6	461.7	23.3	**946.7**
Liabilities excluding long-term debt	(583.0)	(115.8)	(102.8)	(118.4)	**(920.0)**
Net operating assets/(liabilities)	(257.9)	20.8	358.9	(95.1)	**26.7**
Cash, net of debt	414.1	16.3	(290.9)	(8.5)	**131.0**
Net assets	**156.2**	**37.1**	**68.0**	**(103.6)**	**157.7**

Six months to 31 December 2010					
Revenue[1]					
Group and share of joint ventures	728.4	242.5	125.8	-	1,096.7
Less share of joint ventures	(0.9)	-	(46.7)	-	(47.6)
Group revenue	727.5	242.5	79.1	-	1,049.1
Profit					
Group operating profit	19.8	9.2	2.0	(1.9)	29.1
Share of joint ventures' operating profit	-	-	1.4	-	1.4
Group and share of joint ventures	19.8	9.2	3.4	(1.9)	30.5
Share of joint ventures - finance cost	-	-	(0.7)	-	(0.7)
- tax	-	-	(0.1)	-	(0.1)
Profit from operations	19.8	9.2	2.6	(1.9)	29.7
Finance income/(cost)[2]	7.5	(0.1)	(5.5)	(2.0)	(0.1)
Profit before tax	27.3	9.1	(2.9)	(3.9)	29.6
Balance sheet					
Total assets excluding cash	290.5	121.4	434.3	37.9	884.1
Liabilities excluding long-term debt	(596.1)	(118.7)	(43.7)	(146.0)	(904.5)
Net operating (liabilities)/assets	(305.6)	2.7	390.6	(108.1)	(20.4)
Cash, net of debt	433.8	31.7	(301.5)	(19.8)	144.2
Net assets	128.2	34.4	89.1	(127.9)	123.8

[1]Revenue is stated after the exclusion of inter-segmental revenue

[2]Interest is (charged)/credited to the divisions at a notional rate of 4.5% (2010: 4.5%) and 4.0% (2010: 4.0%)

5. Segmental analysis continued

Year to 30 June 2011	Construction £m	Services £m	Property £m	Centre £m	Group £m
Revenue[1]					
Group and share of joint ventures	1,444.5	483.8	250.5	-	2,178.8
Less share of joint ventures	(1.9)	-	(53.9)	-	(55.8)
Group revenue	1,442.6	483.8	196.6	-	2,123.0
Profit					
Group operating profit	39.3	18.3	7.3	(5.2)	59.7
Share of joint ventures' operating profit	-	-	2.1	-	2.1
Profit on disposal of joint ventures	-	-	5.9	-	5.9
Group and share of joint ventures	39.3	18.3	15.3	(5.2)	67.7
Share of joint ventures - finance cost	-	-	(1.4)	-	(1.4)
- tax	-	-	(0.3)	-	(0.3)
Profit from operations before exceptional items	39.3	18.3	13.6	(5.2)	66.0
Exceptional items					
Past service credit on retirement benefit obligation	-	-	-	25.7	25.7
Movement in provision for fine imposed by the Office of Fair Trading	15.6	-	-	-	15.6
Property, land and work in progress write-downs	-	-	(32.9)	(0.6)	(33.5)
Acquisition costs	-	-	(0.6)	(0.2)	(0.8)
Profit from operations	54.9	18.3	(19.9)	19.7	73.0
Finance income/(cost)[2]	15.3	(0.4)	(11.9)	(3.5)	(0.5)
Profit before tax	70.2	17.9	(31.8)	16.2	72.5
Balance sheet					
Total assets excluding cash	332.1	121.5	470.7	25.3	949.6
Liabilities excluding long-term debt	(618.2)	(117.2)	(106.3)	(108.5)	(950.2)
Net operating (liabilities)/assets	(286.1)	4.3	364.4	(83.2)	(0.6)
Cash, net of debt	422.8	27.8	(293.0)	7.2	164.8
Net assets	136.7	32.1	71.4	(76.0)	164.2

[1]Revenue is stated after the exclusion of inter-segmental revenue

[2]Interest is (charged)/credited to the divisions at a notional rate of 4.5% and 4.0%

6. Exceptional items

	Unaudited 6 months to 31 December 2011 £m	Unaudited 6 months to 31 December 2010 £m	Year to 30 June 2011 £m
Past service credit on retirement benefit obligation	-	-	25.7
Movement in provision for fine imposed by the Office of Fair Trading	-	-	15.6
Property, land and work in progress write-downs	-	-	(33.5)
Acquisition costs	-	-	(0.8)
Exceptional items before tax	-	-	7.0
Taxation	-	-	2.1
Exceptional items after tax	-	-	9.1

7. Income tax

The taxation charge for the six months ended 31 December 2011 has been calculated at 20% (June 2011: 19%, December 2010: 24%) of adjusted profit before tax, being profits adjusted for the Group's share of tax in equity accounted joint ventures and excluding exceptional items. This represents the estimated effective rate of tax for the year. Exceptional items are taxed at their underlying rate.

The estimated effective rate of tax of 20% for the year to June 2012 reflects the reduction in the UK corporation tax rate from 26% to 25% with effect from 1 April 2012. In addition to reducing the Group's future tax charge this reduction in tax rate has had the effect of reducing the net deferred tax asset of £29.9m (Group £34.0m asset, joint ventures £4.1m liability) held at 30 June 2011 by £2.0m, with £0.3m being credited to the income statement and £2.3m being charged directly to the statement of comprehensive income.

	31 December 2011	31 December 2010	Year to 30 June 2011		
	Total £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Profit before tax	**32.3**	29.6	65.5	7.0	72.5
Adjust: tax on joint ventures included above	**0.1**	0.1	0.3	-	0.3
Adjusted profit before tax	**32.4**	29.7	65.8	7.0	72.8
Current tax	**0.9**	6.2	13.4	(5.8)	7.6
Deferred tax (including effect of change in tax rate)	**5.5**	0.8	(1.1)	3.7	2.6
Total income tax expense in the income statement	**6.4**	7.0	12.3	(2.1)	10.2
Tax on joint ventures	**0.1**	0.1	0.3	-	0.3
Effective tax charge	**6.5**	7.1	12.6	(2.1)	10.5
Rate	**20%**	24%	19%		14%

8. Dividends

Amounts recognised as distributions to equity holders in the period.

	Unaudited 6 months to 31 December 2011 £m	Unaudited 6 months to 31 December 2010 £m	Year to 30 June 2011 £m
Final dividend for the year ended 30 June 2011 of 44.0 pence (2010: 39.5 pence)	**16.6**	14.6	14.6
Interim dividend for the year ended 30 June 2011 of 20.0 pence	**-**	-	7.5
	16.6	14.6	22.1

The proposed interim dividend for the year ending 30 June 2012 of 21.5 pence (2011: 20.0 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £8.2m will be paid on 11 May 2012 to shareholders on the register at the close of business on 2 March 2012. A scrip dividend alternative will be offered.

9. Earnings per share

	Unaudited 6 months to 31 December 2011 £m	Unaudited 6 months to 31 December 2010 £m	Year to 30 June 2011 £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**25.3**	22.3	61.8
Exclude: exceptional items	**-**	-	(7.0)
Tax thereon	**-**	-	(2.1)
Earnings excluding exceptional items	**25.3**	22.3	52.7
Add: amortisation of intangible assets	**1.7**	1.7	3.4
Less: tax on the amortisation of intangible assets	**(0.5)**	(0.5)	(0.9)
Adjusted earnings	**26.5**	23.5	55.2
	million	million	million
Weighted average number of shares used for earnings per share			
- basic	**37.7**	37.0	37.2
- diluted	**38.2**	37.4	37.7
	pence	pence	pence
Earnings per share			
- basic	**67.1**	60.3	166.1
- diluted	**66.2**	59.6	163.9
Earnings per share (excluding exceptional items)			
- basic	**67.1**	60.3	141.7
- diluted	**66.2**	59.6	139.8
Adjusted earnings per share (excluding exceptional items and the amortisation of intangible assets)			
- basic	**70.3**	63.5	148.4
- diluted	**69.4**	62.8	146.4

10. Property, plant and equipment

During the six months ended 31 December 2011 the Group acquired assets with a cost of £14.7m (2010: £10.8m). Assets with a carrying amount of £0.8m were disposed of during the period (2010: £0.5m) resulting in a gain on disposal of £0.7m (2010: £0.6m), which is included within gross profit.

In addition, £3.8m (2010: £nil) of existing owned assets were refinanced through finance leases during the period. At 31 December 2011 the net carrying value of leased plant and equipment was £3.8m (2010: £nil).

11. 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 2011 £m	Unaudited 6 months to 31 December 2010 £m	Year to 30 June 2011 £m
Kier Group Pension Scheme			
Opening deficit	**(31.1)**	(78.6)	(78.6)
Charge to operating profit	**(0.6)**	(2.1)	(3.5)
Past service credit	**-**	-	25.7
Employer contributions	**12.2**	9.4	22.8
Actuarial (losses)/gains	**(13.4)**	6.1	2.5
Closing deficit	**(32.9)**	(65.2)	(31.1)
Comprising			
Total market value of assets	**716.9**	666.5	680.2
Present value of liabilities	**(749.8)**	(731.7)	(711.3)
Deficit	**(32.9)**	(65.2)	(31.1)
Related deferred tax asset	**8.2**	17.6	8.1
Net pension liability	**(24.7)**	(47.6)	(23.0)

The past service credit arose due to changes announced by the government to use the CPI in place of the RPI to determine pension increases. These have been accounted for as a change in benefits and recognised in the income statement as an exceptional credit.

11. Retirement benefit obligations continued

	Unaudited 6 months to 31 December 2011 £m	Unaudited 6 months to 31 December 2010 £m	Year to 30 June 2011 £m
Kier Sheffield LLP			
Opening surplus/(deficit)	**1.5**	(8.6)	(8.6)
Charge to operating profit	**(0.3)**	(0.7)	(1.3)
Employer contributions	**0.9**	0.5	1.3
Actuarial (losses)/gains	**(8.3)**	8.4	10.1
Closing (deficit)/surplus	**(6.2)**	(0.4)	1.5
Comprising			
Total market value of assets	**157.3**	154.1	159.5
Present value of liabilities	**(163.5)**	(154.5)	(158.0)
(Deficit)/surplus	**(6.2)**	(0.4)	1.5
Related deferred tax asset/(liability)	**1.6**	0.1	(0.4)
Net pension (liability)/asset	**(4.6)**	(0.3)	1.1

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 targets. Further details of the LTIP were disclosed in the 2011 annual financial statements.

No shares have vested under the LTIP during the six months to 31 December 2011.

On 17 December 2011 grants were made under the LTIP as follows:

Shares granted	- directors	105,985
	- employees	514,324
		620,309
Share price at grant		1,420p
Exercise price		nil
Option life		3 years
Dividend yield		4.58%
Fair value per option		
- TSR element (based upon a stochastic model)		869p
- EPS element (based upon the Black-Scholes model)		1,219p

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.

13. Related parties

Transactions with key management personnel

The managing director of Kier Homes Limited is engaged to provide consultancy services, payments for which are made via a third party company (Princegate Estates plc). Payments of £108,000 were made during the period (six months to 31 December 2010: £54,000, year to 30 June 2011: £262,000).

Transactions with pension schemes

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

- In June 2011 £4.5m which was settled through the transfer of the Group's 50% interest in Sheffield Schools PFI project (Academy Services (Sheffield) Holdings Limited).
- In November 2011 £3.1m which settled through the transfer of the Group's 50% interest in Hinchingbrooke Hospital PFI project (Prospect Healthcare (Hinchingbrooke) Holdings Limited)

These amounts have been included as contributions received by the Scheme.

There have been no other significant changes in the nature and amount of related party transactions since the last annual financial statements as at, and for the year ended, 30 June 2011.

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

We confirm that to the best of our knowledge:

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

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

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

Signed on behalf of the Board

M P Sheffield
Chief Executive

H J Mursell
Finance Director

22 February 2012

Independent review report to Kier Group plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2011 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules (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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 2, 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 half-yearly 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 half-yearly financial report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2011 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.

Andrew Marshall
for and on behalf of KPMG Audit Plc
Chartered Accountants
15 Canada Square
London E14 5GL

22 February 2012